



uMLALAZI
MUNICIPALITY



ANNUAL FINANCIAL STATEMENT

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UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2018

General Information

Members of the Council

Councillors

T B Zulu (Mayor and chairperson of the Executive Committee)
B P Simelane (Deputy Mayor and member of the Executive Committee)
E Z Jaffe (Chief Whip)
C T Dlamini (Speaker)
C M Gamede (Member of the Executive Committee)
M M Khanyile (Member of the Executive Committee)
S B Larkan (Member of the Executive Committee)
N L Ngidi (Member of the Executive Committee)
J K Powell (Member of the Executive Committee)
M H Qwabe (Member of the Executive Committee)
I Woolatt (Member of the Executive Committee)
Q T Xulu (Member of the Executive Committee)
L B G Biyela
Z L Buthelezi
S S Cele
S V Chamane
J C Erasmus
A B Dlamini
M E Dlamini
S B Dlamuka
M Dludla
I M M Filand
M Govindsamy
T V Jiyane
N N F Luvuno
B C Magwaza
J T Magwaza
S G Mbambo
N Mbuyisa
S F Mdletshe
M F Mdluli G
S Mkhize N
M Mnqayi
M B Mthiyane
W P Mzimela
S Naicker
M T Ncanana
M M Ngema
W L Ngema
B D Ngidi
S F Ngonyama
N B Nkala
M Z Nkwanyana
S S Ntsele
T E Ntsele
M G Ntuli
M M M Ntuli
N G Ntuli

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2018

General Information

| | |
|------------------------------------|--|
| | B N Shandu P T O Shange B C Sithole H S Thango N S Zulu B L Zungu |
| Grading of local authority | 3 |
| Accounting Officer | R P Mnguni |
| Chief Finance Officer (CFO) | Z N Mhlongo |
| Business address | Hutchinson Street Eshowe 3815 |
| Postal address | P O Box 37 Eshowe 3815 |
| Bankers | First National Bank |
| Auditors | Auditor-General South Africa |
| Telephone number | 035 - 473 3474 |
| Fax number | 034 - 474 4733 |
| E-mail address | mm@umlalazi.org.za |

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2018

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The reports and statements set out below comprise the financial statements presented to the provincial legislature:

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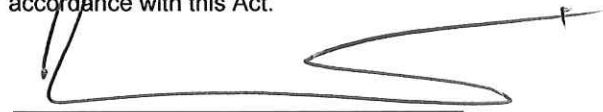
UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2018

Certification by the Accounting Officer

I am responsible for the preparation of these annual financial statements, which are set out on pages 1 to 135 in terms of Section 126 (1) of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) and which I have signed on behalf of the municipality.

I certify that the salaries, allowances and benefits of Councillors as disclosed in note 37 of these financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of the Public Office Bearers Act, 1998 (Act No. 20 of 1998) and the Minister of Co-operative Governance and Traditional Affairs' determination in accordance with this Act.



R P Mnguni
Accounting Officer

31 August 2018

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2018

Statement of Financial Position as at 30 June 2018

| Figures in Rand | Note(s) | 2018 | 2017 Restated* |
|--|---------|--------------------|--------------------|
| Assets | | | |
| Current Assets | | | |
| Inventory | 2 | 3,257,026 | 2,848,094 |
| Receivables from exchange transactions | 3 | 13,831,852 | 10,390,506 |
| Receivables from non-exchange transactions | 4 | 15,103,178 | 9,225,171 |
| VAT receivable | 5 | 5,637,579 | 3,438,057 |
| Cash and cash equivalents | 6 | 99,770,809 | 86,122,738 |
| Current portion of loans receivable | 14 | 15,349 | 22,305 |
| | | 137,615,793 | 112,046,871 |
| Non-Current Assets | | | |
| Property, plant and equipment | 7 | 799,746,821 | 804,858,350 |
| Intangible assets | 10 | 481,579 | 799,068 |
| Investment property carried at fair value | 11 | 17,879,000 | 16,257,000 |
| Heritage assets | 12 | 10,311,344 | 10,311,344 |
| Investments | 13 | 1,000 | 1,000 |
| Loans receivable | 14 | 649,178 | 636,865 |
| | | 829,068,922 | 832,863,627 |
| Total Assets | | 966,684,715 | 944,910,498 |
| Liabilities | | | |
| Current Liabilities | | | |
| Loans payable | 20 | 342,816 | 342,816 |
| Consumer deposits | 15 | 2,327,720 | 1,984,754 |
| Payables from exchange transactions | 16 | 34,260,471 | 34,765,495 |
| Unspent conditional grants and receipts | 18 | 932,196 | 1,025,257 |
| Provision for employee benefits | 19 | 9,245,778 | 10,088,537 |
| VAT payable | 17 | 3,040,252 | 1,062,005 |
| | | 50,149,233 | 49,268,864 |
| Non-Current Liabilities | | | |
| Loans payable | 20 | 3,545,368 | 3,898,376 |
| Employee benefit obligation | 21 | 18,734,000 | 17,790,000 |
| | | 22,279,368 | 21,688,376 |
| Total Liabilities | | 72,428,601 | 70,957,240 |
| Net Assets | | 894,256,114 | 873,953,258 |
| Reserves | | | |
| Housing operating account | 22 | 10,228,866 | 9,716,593 |
| Accumulated surplus | 23 | 884,027,248 | 864,236,665 |
| Total Net Assets | | 894,256,114 | 873,953,258 |

Refer to Note 58 for details regarding the restatement of previous year balances.

* See Note

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2018

Statement of Financial Performance

| Figures in Rand | Note(s) | 2018 | 2017 Restated* |
|---|---------|--------------------|--------------------|
| Revenue | | | |
| Revenue from exchange transactions | | | |
| Service charges | 24 | 78,834,109 | 70,687,271 |
| Rental of facilities and equipment | 25 | 1,623,406 | 1,701,527 |
| Interest earned - external investments | 26 | 4,228,990 | 5,567,036 |
| Agency services | 27 | 3,105,284 | 3,459,345 |
| Licences and permits | 28 | 7,075 | 4,075 |
| Other income | 29 | 1,461,436 | 1,935,825 |
| Gain on disposal of assets and liabilities | 30 | 22,877 | 400,415 |
| Fair value adjustments | 11 | 1,622,000 | - |
| Total revenue from exchange transactions | | 90,905,177 | 83,755,494 |
| Revenue from non-exchange transactions | | | |
| Taxation revenue | | | |
| Property rates | 31 | 48,142,897 | 46,588,390 |
| Licences and permits (Non-exchange) | 32 | 26,546 | 5,025 |
| Fines and penalties | 33 | 52,829,149 | 40,146,749 |
| Transfer revenue | | | |
| Government grants & subsidies | 34 | 215,235,048 | 205,281,887 |
| Public contributions, donated and contributed PPE | 35 | 298,542 | - |
| Total revenue from non-exchange transactions | | 316,532,182 | 292,022,051 |
| Total revenue | | 407,437,359 | 375,777,545 |
| Expenditure | | | |
| Employee related costs | 36 | 107,781,818 | 101,518,663 |
| Remuneration of councillors | 37 | 20,041,006 | 17,631,706 |
| Depreciation, impairment and amortisation | 38 | 50,635,496 | 41,263,952 |
| Finance costs | 39 | 490,496 | 537,243 |
| Bulk purchases | 40 | 47,180,522 | 45,758,770 |
| Other materials | 41 | 9,418,693 | 9,153,432 |
| Contracted services | 42 | 66,998,052 | 59,990,281 |
| Transfers and subsidies | 43 | 3,321,638 | 2,952,001 |
| Lease rentals on operating leases | 44 | 3,143,336 | 3,379,455 |
| General expenses | 45 | 30,332,683 | 29,156,804 |
| Debt impairment | 46 | 51,121,242 | 43,990,841 |
| Total expenditure | | 390,464,982 | 355,333,148 |
| Surplus for the year | | 16,972,377 | 20,444,397 |

Refer to Note 58 for details regarding the restatement of previous year balances.

* See Note

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2018

Statement of Changes in Net Assets

| | (Note 22) Housing Operating account R | (Note 23) Accumulated surplus R | Total net assets R |
|--|--|---------------------------------------|-----------------------|
| Balance at 30 June 2016 | 9 210 114 | 843 567 428 | 852 777 542 |
| Changes in net assets | | | - |
| Surplus (deficit) for the year | -6 725 | 20 451 122 | 20 444 397 |
| Prior year adjustments | | -8 354 420 | -8 354 420 |
| Transfer to capital replacement reserve | | 9 639 655 | 9 639 655 |
| Public contributions and receipts - contributions received during the year | | 2 784 | 2 784 |
| Public contributions and receipts - interest received on short-term deposits | | 245 700 | 245 700 |
| Public contributions and receipts - funding of projects | | -1 315 604 | -1 315 604 |
| Transfer from housing operating account | -14 371 | | -14 371 |
| Public contributions | 64 092 | | 64 092 |
| Interest received | 463 483 | | 463 483 |
| Net income (losses) recognised directly in net assets | 506 479 | 20 669 237 | 21 175 716 |
| Surplus for the year | | | - |
| Total recognised income and expenses for the year | 506 479 | 20 669 237 | 21 175 716 |
| Total changes | 506 479 | 20 669 237 | 21 175 716 |
| Restated Balance at 01 July 2017 | 9 716 593 | 864 236 665 | 873 953 258 |
| Changes in net assets | | | - |
| Surplus (deficit) for the year | 2 914 | 16 969 464 | 16 972 378 |
| Prior year adjustments | | -17 708 010 | -17 708 010 |
| Transfer to capital replacement reserve | | 17 084 360 | |
| Transfer to capital replacement reserve interest received on short-term deposits | | 3 028 354 | 3 028 354 |
| Public contributions and receipts - contributions received during the year | | | - |
| Public contributions and receipts - interest received on short-term deposits | | 416 416 | 416 416 |
| Public contributions and receipts - funding of projects | | | - |
| Transfer from housing operating account | | | - |
| Public contributions | 42 332 | | 42 332 |
| Interest received | 467 027 | | 467 027 |
| Total changes | 512 273 | 19 790 583 | 20 302 856 |
| Balance at 30 June 2018 | 10 228 866 | 884 027 248 | 894 256 114 |

Refer to note 58 for details regarding the restatement of previous year balances.

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2018

Cash Flow Statement

| Figures in Rand | Note(s) | 2018 | 2017 Restated* |
|---|-----------|----------------------|----------------------|
| Cash flows from operating activities | | | |
| Receipts | | | |
| Receipts from consumers and other | | 186,886,379 | 165,000,801 |
| Government grants | | 215,235,048 | 205,727,242 |
| Interest income | | 4,228,990 | 5,567,036 |
| | | 406,350,417 | 376,295,079 |
| Payments | | | |
| Suppliers | | (214,478,750) | (204,606,217) |
| Employee costs | | (127,822,824) | (119,150,389) |
| Finance costs | | (490,496) | (537,243) |
| Transfers and grants | | (3,321,638) | (2,952,001) |
| | | (346,113,708) | (327,245,850) |
| Net cash flows from operating activities | 47 | 60,236,709 | 49,049,229 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 7 | (46,129,088) | (74,560,516) |
| Purchase of intangible assets | 10 | (111,377) | (456,383) |
| (Increase)/ decrease in loans receivable | | (5,357) | (5,358) |
| Net cash flows from investing activities | | (46,245,822) | (75,022,257) |
| Cash flows from financing activities | | | |
| Repayment of loans payable | | (342,816) | (342,816) |
| Net increase/(decrease) in cash and cash equivalents | | 13,648,071 | (26,315,844) |
| Cash and cash equivalents at the beginning of the year | | 86,122,738 | 112,438,582 |
| Cash and cash equivalents at the end of the year | 6 | 99,770,809 | 86,122,738 |

* See Note

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|-------------------|------------------|--------------------|------------------------------------|--|----------------------|
| Figures in Rand | | | | | | |
| Statement of Financial Performance | | | | | | |
| Revenue | | | | | | |
| Revenue from exchange transactions | | | | | | |
| Service charges | 68,870,580 | 2,947,950 | 71,818,530 | 78,834,109 | 7,015,579 | Variance - 9.81% |
| Rental of facilities and equipment | 1,308,680 | - | 1,308,680 | 1,623,406 | 314,726 | 1. Variance - 25.02% |
| Agency services | 3,736,650 | - | 3,736,650 | 3,105,284 | (631,366) | 2. Variance - 16.9% |
| Licences and permits | 61,170 | - | 61,170 | 7,075 | (54,095) | 3. Variance - 88.43% |
| Other income | 2,026,720 | - | 2,026,720 | 1,461,436 | (565,284) | 4. Variance - 27.89% |
| Interest received - investment | 6,898,850 | 500,000 | 7,398,850 | 4,228,990 | (3,169,860) | 5. Variance - 42.84% |
| Total revenue from exchange transactions | 82,902,650 | 3,447,950 | 86,350,600 | 89,260,300 | 2,909,700 | |
| Revenue from non-exchange transactions | | | | | | |
| Taxation revenue | | | | | | |
| Property rates | 51,481,870 | (1,003,150) | 50,478,720 | 48,142,897 | (2,335,823) | Variance 4.63% |
| Licences and permits (Non-exchange) | 11,990 | - | 11,990 | 26,546 | 14,556 | 6. Variance - 121.4% |
| Transfer revenue | | | | | | |
| Government grants & subsidies | 215,096,880 | 1,211,290 | 216,308,170 | 215,235,048 | (1,073,122) | Variance - 0.5% |
| Public contributions and donations | - | - | - | 298,542 | 298,542 | 7. Variance |
| Fines and penalties | 41,516,460 | - | 41,516,460 | 52,829,149 | 11,312,689 | 8. Variance - 27.25% |

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|----------------------|--------------------|----------------------|--|---|-----------------------|
| Figures in Rand | | | | | | |
| Total revenue from non-exchange transactions | 308,107,200 | 208,140 | 308,315,340 | 316,532,182 | 8,216,842 | |
| Total revenue | 391,009,850 | 3,656,090 | 394,665,940 | 405,792,482 | 11,126,542 | |
| Expenditure | | | | | | |
| Employee related costs | (113,931,300) | 6,548,890 | (107,382,410) | (107,781,818) | (399,408) | Variance - 0.37% |
| Remuneration of councillors | (20,114,730) | (413,920) | (20,528,650) | (20,041,006) | 487,644 | Variance - 2.45% |
| Depreciation, impairment and amortisation | (43,708,020) | (2,220,410) | (45,928,430) | (50,635,496) | (4,707,066) | 9. Variance - 50.6% |
| Finance costs | (566,500) | - | (566,500) | (490,496) | 76,004 | 10. Variance - 13.42% |
| Lease rentals on operating leases | (3,704,810) | 403,500 | (3,301,310) | (3,143,336) | 157,974 | Variance - 3.67% |
| Debt impairment | (44,442,220) | - | (44,442,220) | (51,121,242) | (6,679,022) | |
| Bulk purchases | (48,916,200) | 800,000 | (48,116,200) | (47,180,522) | 935,678 | Variance - 1.94% |
| Contracted services | (65,669,030) | (5,112,390) | (70,781,420) | (66,998,052) | 3,783,368 | Variance - 5.56% |
| Transfers and subsidies | (3,891,250) | (306,050) | (4,197,300) | (3,321,638) | 875,662 | 11. Variance - 20.86% |
| Other materials | (10,670,880) | 754,910 | (9,915,970) | (9,418,693) | 497,277 | Variance - 5.01% |
| General expenses | (29,225,290) | (4,916,560) | (34,141,850) | (30,332,683) | 3,809,167 | 12. Variance - 11.18% |
| Total expenditure | (384,840,230) | (4,462,030) | (389,302,260) | (390,464,982) | (1,162,722) | |
| Operating surplus | 6,169,620 | (805,940) | 5,363,680 | 15,327,500 | 9,963,820 | |
| Gain on disposal of assets and liabilities | 140,000 | - | 140,000 | 22,877 | (117,123) | 13. Variance |
| Fair value adjustments | 840,000 | - | 840,000 | 1,622,000 | 782,000 | 14. Variance - 93.1% |

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|--|--------------------|------------------|------------------|--|---|-----------|
| Figures in Rand | | | | | | |
| | 980,000 | - | 980,000 | 1,644,877 | 664,877 | |
| Operating surplus | 7,149,620 | (805,940) | 6,343,680 | 16,972,377 | 10,628,697 | |
| Actual amount on comparable basis as presented in the Budget and Actual Comparative Statement | 7,149,620 | (805,940) | 6,343,680 | 16,972,377 | 10,628,697 | |

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|--|--------------------|-------------|--------------|--|---|-----------|
|--|--------------------|-------------|--------------|--|---|-----------|

Figures in Rand

Explanation of significant variances greater than 10% versus budget

1. The variance is due to a tariff increase which is higher than anticipated, promulgated in March by South African Sugar Association.
2. The variance is due to the decrease of the number of vehicle registration and testing in 2017-18 compared to previous years.
3. The variance is due the amount received from the licence and permits being less than anticipated. This is driven by number of applications which was lower this year.
4. The variance is due a decrease in revenue received from town planning, burials fees and cleaning and removal.
5. The variance is due the interest earned being less than anticipated.
6. The variance is due to revenue received from licences and permits being more than anticipated.
7. The variance is due donations received after the adjustments budget.
8. The variance is due to the number of fines issued being more than anticipated.
9. The variance is due depreciation being more than anticipated.
10. The variance is due to the interest paid being less than budget amount.
11. The variance is due under spending on the donation of furniture to crèches and LED SMME equipment donations.
12. The variance is due to underspending on advertising, communication hire charges, learnerships and internships, Seating Allowance for Traditional Leaders, Transport Provided as Part of Departmental Activities and Uniform and Protective Clothing.
13. The variance is due the municipal auction not taking place in 2017-18.
14. The fair value adjustment was not done in 2016-17 and adjustment done in 2017-18 includes the 2016-17 financial year.

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2018

Accounting Policies

1. ACCOUNTING POLICIES

1.1 BASIS OF PRESENTATION

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5. These accounting policies and the applicable disclosures have been based on the South African Statements of Generally Accepted Accounting Practices (SA GAAP) including any interpretations of such Statements issued by the Accounting practices Board.

Entities are required to apply the Standards of GRAP where the Minister has determined the effective date. The Minister has determined the effective date for the following Standards of GRAP:

- GRAP 1 Presentation of Financial Statements
- GRAP 2 Cash Flow Statements
- GRAP 3 Accounting Policies, Changes in Accounting Estimates and Errors
- GRAP 4 The Effects of Changes in Foreign Exchange Rates
- GRAP 5 Borrowing Costs
- GRAP 6 Consolidated and Separate Financial Statements
- GRAP 7 Investments in Associates
- GRAP 8 Investment in Joint Ventures
- GRAP 9 Revenue from Exchange Transactions
- GRAP 10 Financial Reporting in Hyperinflationary Economies
- GRAP 11 Construction Contracts
- GRAP 12 Inventories
- GRAP 13 Leases
- GRAP 14 Events after the Reporting Date
- GRAP 16 Investment Properties
- GRAP 17 Property, Plant and Equipment
- GRAP 19 Provisions, Contingent Liabilities and Contingent Assets
- GRAP 21 Impairment of Non-cash-generating Assets
- GRAP 23 Revenue from Non-exchange Transactions (Taxes and Transfers)
- GRAP 24 Presentation of Budget Information in Financial Statements
- GRAP 25 Employee Benefits
- GRAP 26 Impairment of Cash-generating Assets
- GRAP 27 Agricultural GRAP
- GRAP 31 Intangible Assets
- GRAP 100 Non-current Assets Held for Sale and Discontinued Operations
- GRAP 103 Heritage Assets
- GRAP 104 Financial Instruments

Accounting policies for material transactions, events or conditions not covered by the above GRAP Standards have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3.

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2018

Accounting Policies

Directives issued and effective:

Directive 1: Repeal of Existing Transitional Provisions in, and Consequential Amendments to, Standards of GRAP

Directive 2: Transitional Provisions for the Adoption of Standards of GRAP by Public Entities, Municipal Entities and Constitutional Institutions.

Directive 3: Transitional Provisions for the Adoption of Standards of GRAP by High Capacity Municipalities.

Directive 4: Transitional Provisions for Medium and Low Capacity Municipalities.

Directive 5: Determining the GRAP reporting framework.

Directive 6: Provisions for Revenue collected by SARS

Directive 7: The Application of Deemed Cost on the Adoption of Standards of GRAP

Directive 9: The application of the Standards of GRAP by trading entities

Directive 10: Application of The Standards of GRAP by Public Further Education and Training Colleges

Directive 11: Measurement Bases Following Initial Adoption of Standards of GRAP

Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities

Interpretations of the Standards of GRAP

IGRAP 1: Applying the Probability Test on Initial Recognition of Exchange Revenue

IGRAP 2: Changes in Existing Decommissioning, Restoration and Similar Liabilities

IGRAP 3: Determining whether an Arrangement contains a Lease

IGRAP 4: Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

IGRAP 5: Applying the Restatement Approach under the Standard of GRAP on Financial Reporting in Hyperinflationary

Economies

IGRAP 6: Loyalty Programmes

IGRAP 7: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IGRAP 8: Agreements for the Construction of Assets from Exchange Transactions

IGRAP 9: Distributions of Non-cash Assets to Owners

IGRAP 10: Assets Received from Customers

IGRAP 11: Consolidation-Special Purpose Entities

IGRAP 12: Jointly Controlled Entities-Non-Monetary Contributions

IGRAP 13: Operating Leases – Incentives

IGRAP 14: Evaluating the Substance of Transactions Involving the Legal Form of a Lease

IGRAP 15: Revenue – Barter Transactions Involving Advertising Services

IGRAP 16: Intangible Assets - Website Costs

Approved guidelines of Standards of GRAP:

Guide 1: Guideline on Accounting for Public Private Partnerships

Standards of GRAP that an entity may use to disclose information in its financial statements:

GRAP 20 Related Party Disclosures

1.1.1 Changes in accounting policy and comparability

Accounting Policies have been consistently applied, except where otherwise indicated below:

For the years ended 30 June 2013 and 30 June 2014 the municipality has adopted the accounting framework as set out in point 1 above. The details of any resulting changes in accounting policy and comparative restatements are set out below.

The municipality changes an accounting policy only if the change:

- a) is required by a Standard of GRAP; or
- b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the performance or cash flow.

1.1.2 Critical judgments, estimations and assumptions

The following are the critical judgments, apart from those involving estimations, that the management has made in the process of applying the municipality's Accounting Policies and that have the most significant effect on the amounts recognised in Annual Financial Statements:

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2018

Accounting Policies

1.1.2.1 Revenue Recognition

Accounting Policy 1.10.2 on *Revenue from Exchange Transactions* and Accounting Policy 1.10.3 on *Revenue from Non-exchange Transactions* describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgment, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: *Revenue from Exchange Transactions* and GRAP 23: *Revenue from Non-exchange Transactions*. In particular when services are rendered, whether the service has been rendered. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

1.1.2.2 Financial assets and liabilities

The classification of financial assets and liabilities into categories is based on judgment by management.

1.1.2.3 Impairment of Financial Assets

Accounting Policy 1.6.4 on *Impairment of Financial Assets* describes the process followed to determine the value by which financial assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of financial assets as set out in GRAP 104: *Financial Instruments*. The management of the municipality is satisfied that the impairment of financial assets recorded during the year, is appropriate.

1.1.2.4 Useful lives of Property, Plant and Equipment ("PPE")

As described in Accounting Policies 1.3.3 and 1.4, the municipality depreciates/amortizes its property, plant and equipment, and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives and residual values of the assets are based on industry knowledge.

1.1.2.5 Impairment: Write down of PPE and Inventories

Significant estimates and judgments are made relating to PPE impairment tests and write down of inventories to net realizable values.

1.1.2.6 Defined Benefit Plan Liabilities

As described in Accounting Policy 13.3, the municipality obtains actuarial valuations of its defined benefit plan liabilities. The defined benefit obligations of the municipality that were identified are Post-retirement Health Benefit Obligations and Long-service Awards. The estimated liabilities are recorded in accordance with the requirements of IAS 19 *Employee Benefits*. Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in Note 4 to the Annual Financial Statements.

Multi-employer defined benefit funds are accounted for as defined contribution plan as set out in note 1.13.

1.1.3 Presentation currency

The Annual Financial Statements are presented in South African Rand, rounded off to the nearest Rand which is the municipality's functional currency.

1.1.4 Going concern assumption

The Annual Financial Statements have been prepared on a going concern basis.

1.1.5 Offsetting

Assets, liabilities, revenues and expenses have not been offset, except when offsetting is required or permitted by a Standard of GRAP.

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1.1.6 New standards and interpretations

1.1.6.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard / Interpretation: Effective date: Years beginning on or after Expected Impact:

GRAP 25: Employee benefits 01 April 2013. This standard prescribes similar requirements to those in terms of IAS19: Employee Benefits. Since IAS 19 has been applied in developing the current accounting policy, no impact on the financial statements.

GRAP 1(as revised 2012): Presentation of Financial Statements 01 April 2013 No material changes effected.

GRAP 3 (As revised 2012): Accounting Policies, Change in Accounting Estimates and Errors 01 April 2013 No material changes effected.

GRAP 7 (as revised 2012): Investments in Associates 01 April 2013 Currently not relevant to the municipality.

GRAP 9 (as revised 2012): Revenue from Exchange Transactions 01 April 2013 No material changes effected.

GRAP 12 (as revised 2012): Inventories 01 April 2013 No material changes effected.

GRAP 13 (as revised 2012): Leases 01 April 2013 No material changes effected.

GRAP 16 (as revised 2012): Investments property 01 April 2013 No material changes effected.

GRAP 17 (as revised 2012): Property, Plant and Equipment 01 April 2013 No material changes effected.

GRAP 27 (as revised 2012): Agriculture (Replaces GRAP 101) 01 April 2013 Currently not relevant to the municipality.

GRAP 31 (as revised 2012): Intangible Assets

GRAP 32: Service concession arrangement – Grantor.

(Replaces GRAP 102) 01 April 2013 no material changes effected.

GRAP 108: Statutory receivables.

GRAP 109: Accounting by principals and agents.

IGRAP 1: Applying the Probability Test on the Initial Recognition of Revenue 01 April 2013 this interpretation indicates the treatment of traffic fines. As a result revenue and Expenditure will increase.

1.1.6.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2012 or later periods:

GRAP 105: Transfers of Functions between Entities under Common Control

The objective of this Standard of GRAP is to establish accounting principles for the acquirer and transferor in a transfer of functions between municipalities under common control.

A transfer of functions between municipalities under common control is a reorganisation and/or reallocation of functions between municipalities that are ultimately controlled by the same entity before and after a transfer of functions.

In the event of a transfer of functions between municipalities under common control, the assets and liabilities should be recognised (by the acquirer) at their carrying amounts and should be derecognised (by the transferor) at their carrying amounts.

The difference between amount of consideration paid or received, if any, and the carrying amounts of assets and liabilities should be recognised in accumulated surplus / (deficit).

Specific disclosures are required when there is a transfer of functions between municipalities under common control.

No effective date has yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective.

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It is unlikely that the standard will have a material impact on the municipality's financial statements.

GRAP 106: Transfers of Functions between Entities not Under Common Control

The objective of this Standard of GRAP is to establish accounting principles for the acquirer in a transfer of functions between municipalities not under common control.

A transfer of functions between municipalities not under common control is a reorganisation and/or reallocation of functions between municipalities that are not ultimately controlled by the same entity before and after a transfer of functions.

In the event of a transfer of functions between municipalities not under common control, the assets and liabilities should be recognised (by the acquirer) at their acquisition-date fair values and should be derecognised (by the acquiree) at their carrying amounts.

The difference between amount of consideration paid or received, if any, and the fair value of assets acquired and liabilities assumed or carrying amounts of assets transferred and liabilities relinquished should be recognised in surplus / (deficit).

For transfer of functions between municipalities not under common control there are some specific recognition and measurement principles and exceptions to the recognition and measurement principles.

Specific disclosures are required when there is a transfer of functions between municipalities not under common control.

No effective date has yet been determined by the Minister of Finance.

The municipality expects to adopt the standard once it becomes effective.

The impact of this amendment is currently being assessed.

GRAP 107: Mergers

The objective of this Standard of GRAP is to establish accounting principles for the combined municipality and combining municipalities in a merger.

A merger is where a new combined municipality is started, no acquirer can be identified and the combining municipalities do not have any control over the municipality.

In the event of a merger, the assets and liabilities should be recognised (by the combined municipality) at their carrying amounts and should be derecognised (by the combining municipalities) at their carrying amounts.

The difference between the carrying amounts of assets and liabilities should be recognised in accumulated surplus / (deficit).

Specific disclosures are required when there is a merger.

No effective date has yet been determined by the Minister of Finance.

The municipality expects to adopt the standard once it becomes effective.

The impact of this standard is currently being assessed.

GRAP 20: Related Party Disclosures

The objective of this Standard of GRAP is to ensure that a municipality's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

This Standard of GRAP requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the municipality in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This Standard of GRAP also applies to individual financial statements.

This Standard of GRAP requires that only transactions with related parties where the transactions are not concluded within normal operating procedures or on terms that are not no more or no less favourable than the terms it would use to conclude transactions with another municipality, entity or person are disclosed.

The Standard of GRAP sets out the requirements, inter alia, for the disclosure of:

- control;
- related party transactions; and
- remuneration of management

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No effective date has yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective.

It is unlikely that the standard will have a material impact on the municipality's financial statements. For the year under review, Council has applied IPSAS 20.

1.1.6.3 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2012 or later periods but are not relevant to its operations:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which a municipality reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of a municipality that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by a municipality within a particular region.

No effective date has been determined by the Minister of Finance.

The municipality expects to adopt the standard once it becomes effective.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the financial statements.

1.2 HOUSING OPERATING ACCOUNT

The Housing Operating Account was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from National and Provincial Government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to the Housing Operating Account. Housing selling schemes both complete and in progress as at 1 April 1998, were also transferred to the Housing Operating Account.

In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Operating Account. Monies standing to the credit of the Housing Operating Account can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

1.3 PROPERTY, PLANT AND EQUIPMENT

1.3.1 Initial Recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of services, rental to others, or for administrative purposes, and are expected to be used during more than one year.

The cost of an item of property, plant and equipment is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.

Property, plant and equipment are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost, where applicable, also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed

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to be equal to the fair value of that asset on the date acquired.

The cost of an item of property, plant and equipment acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at its fair value. If the acquired item could not be measured at its fair value, its cost was measured at the carrying amount of the asset given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

1.3.2 Subsequent Measurement

Subsequent expenditure relating to property, plant and equipment is capitalized if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the municipality and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalized when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognizes the part of the asset being replaced and capitalizes the new component.

Subsequently all property plant and equipment, are measured at cost (which includes deemed cost for previously unrecognized assets), less accumulated depreciation and accumulated impairment losses.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when the compensation becomes receivable.

1.3.3 Depreciation

Land is not depreciated as it is regarded as having an indefinite life. Depreciation of assets other than land is calculated, using the straight line method, to depreciate their cost to their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The depreciation rates are based on the following estimated useful lives.

Depreciation only commences when the asset is available for use, unless stated otherwise.

| <u>Details</u> | <u>Years</u> |
|-------------------------------------|--------------|
| Infrastructure | |
| Roads | 30 – 80 |
| Electricity | 20 - 50 |
| Storm Water | 40 – 60 |
| Solid Waste Disposal | 10 – 30 |
| Community | |
| Community and Recreation Facilities | 20 – 30 |
| Other Assets | 20 – 30 |
| Vehicles | 5 – 10 |
| Furniture and Fittings | 7 – 10 |

The assets' residual values, estimated useful lives and depreciation method are reviewed annually, and adjusted prospectively if appropriate, at each reporting date.

1.3.4 Incomplete Construction Work

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is available for use.

1.3.5 Finance Leases

Assets capitalized under finance leases are depreciated over their expected useful lives on the same basis as PPE controlled by the entity or where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term.

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1.3.6 Infrastructure Assets

Infrastructure Assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure assets are treated similarly to all other assets of the municipality.

1.3.7 Derecognition of Property, Plant and Equipment

The carrying amount of an item of property, plant and equipment is derecognized on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or losses arising from derecognition of an item of property, plant and equipment is included in surplus or deficit for the year when the item is derecognized.

Gains or losses are calculated as the difference between the net book value of assets (cost less accumulated depreciation and accumulated impairment losses) and the sales proceeds.

1.3.8 Impairment of Assets

1.3.8.1 Cash - generating Assets

Identification:

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Discount rate

The discount rate is a rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortization is recognised immediately in surplus or deficit for the year.

An impairment loss is recognized for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

- ☐ To the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognized in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior periods.

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A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortization is recognized immediately in surplus or deficit for the year.

1.3.8.2 Impairment of Non-cash Generating Assets

Identification

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset no impairment recognised.

Value in use

Value in use of an asset is the present value of the asset's remaining service potential.

The present value of the remaining service potential of an asset is determined using the following approach:

Depreciated replacement cost approach:

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimized" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimized basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortization is recognized immediately in surplus or deficit for the year.

An impairment loss is recognized for non-cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

- ☐ To the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognized in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortization is recognized immediately in surplus or deficit for the year.

1.4 INTANGIBLE ASSETS

1.4.1 Initial Recognition

Identifiable non-monetary assets without physical substance which are held for use in the production or supply of services, for rental to others, or for administrative purposes are classified and recognised as intangible assets. The municipality recognizes an intangible asset only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

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Internally generated intangible assets are subject to strict recognition criteria before they are capitalized. Research expenditure is recognised as an expense when incurred.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalized development costs are recorded as intangible assets and amortized from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years. Development assets are tested for impairment annually.

Intangible assets are initially recognised at cost. Where an intangible asset is acquired at no cost or for a nominal consideration, its cost is its fair value as at the date it is acquired. Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

The municipality does not recognize electricity servitudes arising from a legal right as intangible assets.

1.4.2 Website Costs

Any internal expenditure on the development and operation of the municipality's own website is accounted for in accordance with the Standard of GRAP on Intangible Assets. The nature of each activity for which expenditure is incurred (eg. Training employees and maintaining the website) and the website's stage of development or post-development are evaluated to determine the appropriate accounting treatment.

The stages of a website's development can be described as follows:

- (a) Planning – includes undertaking feasibility studies, defining objectives and specifications, evaluating alternatives and selecting preferences.
- (b) Application and infrastructure development- includes obtaining a domain name, purchasing and developing hardware and operating software, installing developed applications and stress testing.
- (c) Graphical design development-includes designing the appearance of web pages.
- (d) Content development- includes creating, purchasing, preparing and uploading information, either text or graphic, on the website before the completion of the website's development. This information may either be stored in separate database that are integrated into (or accessed from) the website or coded directly into the web pages.

1.4.3 Subsequent Measurement, Amortization and Impairment

Subsequently all intangible assets are measured at cost, less accumulated amortization and accumulated impairment losses. Amortization

is charged on a straight-line basis over the intangible assets' useful lives, which are estimated to be between 3 to 5 years.

Where intangible assets are deemed to have an indefinite useful life, such intangible assets are not amortized, for example servitudes (excluding electricity servitudes) obtained by the municipality give the municipality access to land for specific purposes for an unlimited period - however, such intangible assets are subject to an annual impairment test.

Intangible assets are annually tested for impairment, including intangible assets not yet available for use. Where items of intangible assets have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation. The impairment loss is the difference between the carrying amount and the recoverable amount.

The estimated useful life and amortization method are reviewed annually. Any adjustments arising from the annual review are applied prospectively as a change in accounting estimate in surplus or deficit for the year.

1.4.4 Derecognition of Intangible Assets

The carrying amount of an intangible asset is derecognized on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from derecognition of an intangible asset is included in surplus or deficit when the asset is derecognized. Gains are not included in revenue.

Gains or losses are calculated as the difference between the net book value of assets (cost less accumulated amortization and accumulated impairment losses) and the sales proceeds. This is included in surplus or deficit for the year as a gain or loss on disposal of intangible assets.

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1.5 INVESTMENT PROPERTY

1.5.1 Initial Recognition

Investment property includes property (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction or at a nominal value its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

Based on management's judgment, the following criteria have been applied to distinguish investment properties from owner occupied property or property held for resale:

- ☐ All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment Properties;
- ☐ Land held for a currently undetermined future use. (If the municipality has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation);
- ☐ Property that is being constructed or developed for future use as investment property;
- ☐ A building owned by the municipality (or held by the municipality under a finance lease) and leased out under one or more operating leases; and
- ☐ A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

The following assets do not fall in the ambit of Investment Property and shall be classified as Property, Plant and Equipment, Inventory or Non-Current Assets Held for Sale, as appropriate:

- ☐ Property intended for sale in the ordinary course of operations or in the process of construction or development for such sale;
- ☐ Property being constructed or developed on behalf of third parties;
- ☐ Owner-occupied property, including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal;
- ☐ Property that is leased to another entity under a finance lease;
- ☐ Property held to provide a social service and which also generates cash inflows, e.g. property rented out below market rental to sporting bodies, schools, low income families, etc; and
- ☐ Property held for strategic purposes or service delivery.

1.5.2 Subsequent Measurement - Fair Value Model

Investment property is measured using the fair value model. Investment property is carried at fair value, representing open market value determined annually by external valuers at the reporting date. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. A gain or loss arising from a change in the fair value of investment property is included in surplus or deficit for the year.

The carrying amount of an investment property is derecognized on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from derecognition of an investment property is included in surplus or deficit for the year when the asset is derecognized.

Gains or losses are calculated as the difference between the net book value of assets (fair value) and the sales proceeds.

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1.6 **HERITAGE ASSETS**

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

1.6.1 **Recognition**

The municipality recognises a heritage asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably. Where the municipality holds a heritage asset, but on initial recognition, it does not meet the recognition criteria because it cannot be reliably measured, information on such heritage asset is disclosed in the note on heritage assets.

1.6.2 **Initial measurement**

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage asset is carried at its cost less any accumulated impairment losses.

1.6.3 **Impairment**

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

1.6.4 **De-recognition**

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

1.7 **FINANCIAL INSTRUMENTS**

The municipality has various types of financial instruments and these can be broadly categorized as either *Financial Assets* or *Financial Liabilities*.

1.7.1 **Financial Assets - Classification**

A financial asset is any asset consisting of cash or a contractual right to receive cash. The municipality has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereto:

- ☐ Investments in Fixed Deposits (Banking Institutions, etc)
- ☐ Long-term Receivables
- ☐ Consumer Debtors
- ☐ Certain Other Debtors
- ☐ Short-term Investment Deposits
- ☐ Bank Balances and Cash

In accordance with GRAP 104, the Financial Assets of the municipality are classified as follows into the three categories allowed by this standard:

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| Type of Financial Asset | Classification in terms of GRAP 104 |
|---------------------------------------|-------------------------------------|
| Short-term Investment Deposits – Call | Financial assets at amortized cost |
| Bank Balances and Cash | Financial assets at amortized cost |
| Long-term Receivables | Financial assets at amortized cost |
| Consumer Debtors | Financial assets at amortized cost |
| Other Debtors | Financial assets at amortized cost |
| Investments in Fixed Deposits | Financial assets at amortized cost |

Financial assets at amortized cost are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets.

Cash and cash equivalents include cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorizes cash and cash equivalents as financial assets: loans and receivables.

1.7.2 Financial Liabilities - Classification

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity. The municipality has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereto:

- ☐ Long-term Liabilities
- ☐ Certain Other Creditors
- ☐ Bank Overdraft
- ☐ Short-term Loans
- ☐ Current Portion of Long-term Liabilities
- ☐ Consumer Deposits

In accordance with IAS 39.09, the *Financial Liabilities* of the municipality are classified into the following category as allowed by this standard

- ☐ Financial liabilities at amortized cost.

Financial liabilities at amortized cost are initially measured at fair value, net of transaction costs. These are subsequently measured at amortized cost using the Effective interest method, with interest expense recognised on an effective yield basis.

1.7.3 Initial and Subsequent Measurement

1.7.3.1 Financial Assets:

Financial assets at amortized cost are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortized cost using the Effective Interest Method less any impairment, with revenue recognised on an effective yield basis.

Financial assets are recognised on the trade date at which the municipality becomes a party to the contractual provisions of the instrument.

1.7.3.2 Financial Liabilities:

Financial Liabilities at amortized cost are initially measured at fair value net of transaction costs. Subsequently, these liabilities are measured at amortized cost using the effective interest method, with interest expense recognised on an effective yield basis.

Financial liabilities are recognised on the trade date at which the municipality becomes a party to the contractual provisions of the instrument.

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1.7.4 Impairment of Financial Assets

Financial assets are assessed for indicators of impairment at reporting date. Financial assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with GRAP 104.

Initially Accounts Receivable are valued at fair value and subsequently carried at amortized cost using the effective interest rate method. An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year-end. Amounts receivable within 12 months from the date of reporting are classified as current.

A provision for impairment of trade receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The provision is made whereby the recoverability of Consumer Debtors is assessed individually or collectively after grouping the assets in financial assets with similar credit risk characteristics if individual assessment was not possible

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets and recognised in surplus or deficit for the year with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in surplus or deficit for the year.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through surplus or deficit for the year to the extent that the carrying amount of the instruments at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognised.

1.7.5 Derecognition of Financial Assets

The municipality derecognizes Financial Assets only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of Financial Assets due to non recoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred financial asset, the municipality continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

1.7.6 Derecognition of Financial Liabilities

The municipality derecognizes Financial Liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire.

1.8 RISK MANAGEMENT OF FINANCIAL ASSETS AND LIABILITIES

It is the policy of the municipality to disclose information that enables the user of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the municipality is exposed on the reporting date.

Risks and exposure are disclosed as follows:

1.8.1 Credit Risk

- ☐ Each class of financial assets is disclosed separately.
- ☐ Maximum exposure to credit risk not covered by collateral is specified.
- ☐ Financial assets covered by collateral are specified.

1.8.2 Liquidity Risk

Liquidity risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

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- ☐ A maturity analysis for financial liabilities (where applicable) that shows the remaining undiscounted contractual maturities is disclosed in the notes to the annual financial statements.

1.8.3 Interest Risk

Interest rate risk originates from the uncertainty about the fair value or future cash flows of a financial instrument which fluctuate because of changes in market interest rates.

- ☐ Borrowings issued at variable rates expose the municipality to cash flow interest rate risk.
- ☐ Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

Management has assessed the impact of interest rate risk on the operations of the municipality and considers the risk to be negligible.

1.8.4 Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rate and equity prices will affect the municipality's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

1.9 INVENTORIES

Inventories comprising consumable stores, raw materials and finishing goods are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, and then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realizable value, determined on the weighted average cost.

Inventories are measured at the lower of cost and current replacement cost where they are held for:

- ☐ distribution at no charge or for a nominal charge; or
- ☐ consumption in the production process of goods to be distributed at no charge or for a nominal charge

Unsold properties represent unsold units in economic selling schemes where the net realizable value of each unit is either nil or a nominal amount. As a consequence of the passage of time the municipality is not in a position to determine the cost of such inventory. Furthermore, the use of current replacement cost would not only distort the statement of financial position by inflating the value of inventories but would also result in a credit to the housing operating account contrary to section 14 of the Housing Act, 1998. Accordingly unsold properties are stated in the annual financial statements at net realizable value.

Redundant and slow-moving inventories are identified and written down from cost to net realizable value with regard to their estimated economic or realizable values.

1.10 NON-CURRENT ASSETS HELD-FOR-SALE AND DISCONTINUED OPERATIONS

1.10.1 Non-current assets held for sale

1.10.1.1 Initial Recognition

Non-current Assets and Disposal Groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Council must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

1.10.1.2 Subsequent Measurement

Non-current Assets (and Disposal Groups) classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortized) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

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1.10.2 Discontinued operations

A discontinued operation is a component of the municipality that either has been disposed of or is classified as held for sale and:

- (a) represents a distinguishable activity, group of activities or geographical area of operations;
- (b) is part of a single co-ordinated plan to dispose of a distinguishable activity, group of activities or geographical area of operations; or
- (c) is a controlled entity acquired exclusively with a view to resale.

Discontinued operations are presented separately from continuing operations in the annual financial statements.

1.11 REVENUE RECOGNITION

1.11.1 General

Revenue from exchange transactions

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue comprises the fair value of the consideration received or receivable for the sale or rendering of services in the ordinary course of the municipality's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The municipality recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits or service potential will flow to the municipality and when specific criteria have been met for each of the municipality's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from non-exchange transactions

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

1.11.2 Revenue from Exchange Transactions

1.11.2.1 Service Charges

Service charges relating to electricity are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

1.11.2.2 Pre-paid Electricity

Revenue from the sale of electricity pre-paid meter cards are recognised at the point of sale. Revenue from the sale of electricity prepaid meter cards made in the last month of the financial year is recognised based on an estimate of the prepaid electricity consumed as at the reporting date with reference to the consumption patterns of the individual users.

1.11.2.3 Finance income

Interest earned on investments is recognised in surplus or deficit for the year on the time proportionate basis that takes into account the effective yield on the investment.

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1.11.2.4 Tariff Charges

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorized tariff. This includes the issuing of licenses and permits.

1.11.2.5 Rentals

Revenue from the rental of facilities and equipment classified as operating leases is recognised on a straight-line basis over the term of the lease agreement, where such lease periods span over more than one financial year.

1.11.3 Revenue from Non-exchange Transactions

1.11.3.1 Rates and Taxes

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

1.11.3.2 Fines

Revenue from the issuing of fines is recognized when:

It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognized when the public prosecutor pays over to the municipality the cash actually collected on summonses issue.

1.11.3.3 Public contributions

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use. Where public contributions have been received and the municipality has not met the condition, a liability is recognised.

1.11.3.4 Revenue from Recovery of Unauthorized, Irregular, Fruitless and Wasteful Expenditure

Revenue from the recovery of unauthorized, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councilors or officials is virtually certain. Such revenue is based on legislated procedures.

1.12 GOVERNMENT GRANTS AND RECEIPTS

Income received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs, are recognised as Accounts Receivable in the period in which they become receivable.

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the liability and if it is the municipality's interest it is recognised as interest earned in surplus of deficit for the year.

1.13 PROVISIONS

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the obligation.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

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Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

1.14 EMPLOYEE BENEFITS

1.14.1 Short-term Employee Benefits

Remuneration to employees is recognised in surplus or deficit for the year as the services are rendered, except for non-accumulating benefits, which are only recognised when the specific event occurs.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as an accrual in the Statement of Financial Position.

Liabilities for annual and performance bonuses are recognized as they accrue to employees.

Annual bonuses accrue to employees on an annual basis, based on the employee contract. Performance bonuses accrue to senior managers on an annual basis, subject to certain conditions. These accruals are an estimate of the amount due to staff as at the financial year end.

1.14.2 Past service costs

Past service costs are recognised immediately in surplus or deficit, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

1.14.3 Defined Contribution Plans

A **defined contribution plan** is a plan under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in surplus or deficit for the year in which the service is rendered by the relevant employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. The municipality has no further payment obligations once the contributions have been paid.

1.14.4 Defined Benefit Plans

A **defined benefit plan** is a post-employment benefit plan other than a defined contribution plan.

For defined benefit plans the cost of providing the benefits is determined using the projected unit credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged to surplus or deficit for the year in which they arise.

1.14.4.1 Pension obligations

The municipality and its employees contribute to 4 different pension funds, namely Natal Joint Municipal Pension Fund and South African Local Authority Pension Fund. The KZN Municipal Pension Fund is a defined contribution fund. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year they become payable. Natal Joint Superannuation & Retirement Funds and Government Employee Pension Fund are defined benefit funds. The Natal Joint Provident Fund and South African Local Authority Pension Fund are defined contribution funds.

The schemes are funded through payments to fund administrator or trustee-administered funds, determined by periodic actuarial calculations.

Defined benefit plans have been accounted for as defined contribution plans in accordance with the requirements on multi-employer plans where sufficient information is not available to account for such plans as defined benefit plans. As the fund administrators do not have sufficient information available to allocate the shortfall on liabilities to individual employers, no liability is recognised for any shortfall of fund asset as compared to fund liabilities. Any surcharges that may be levied by the fund from time to time in order to

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compensate for shortfalls, are recognised as expenses in the period in which they become payable to the fund.

As surcharges are advised long in advance, based on actuarial valuations of the fund as a whole, the necessary provision for the payment thereof is made in the course of the municipality's normal budgeting processes."

1.14.4.2 Post-retirement Health Care Benefits:

The municipality has an obligation to provide Post-retirement Health Care Benefits to certain of its retirees. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and recognised actuarial gains and losses, adjusted by past service costs where applicable. The plan is unfunded. The present value of the defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and an appropriate discount rate. Valuations of these obligations are carried out every year by independent qualified actuaries.

Actuarial gains or losses are accounted for in full and are recognised in the Statement of Financial Performance.

1.14.4.3 Long-service Allowance

The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, as well as additional once-off leave calculated in terms of the rules of the scheme, after 10, 15, 20, 25, 30, 35, 40 and 45 years of continued service.

The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for in surplus or deficit for the year.

Actuarial gains or losses are accounted for in full and are recognised in surplus or deficit for the year.

1.15 LEASES

1.15.1 The Municipality as Lessee

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or Intangible Assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Corresponding liabilities are included in the Statement of Financial Position as Finance Lease Liabilities. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred. Lease payments are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to Property, plant, equipment or Intangible Assets. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised as an expense in surplus or deficit for the year on a straight-line basis over the term of the relevant lease.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

1.15.2 The Municipality as Lessor

Operating lease rental income is recognised on a straight-line basis over the term of the relevant lease.

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1.16 BORROWING COSTS

The municipality capitalises borrowing costs incurred that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset are recognised as an expense in surplus or deficit for the year.

It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established - the municipality expenses borrowing costs when it is inappropriate to capitalise it. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete.

1.17 VALUE ADDED TAX

The Municipality accounts for Value Added Tax on the payments basis.

1.18 CASH AND CASH EQUIVALENTS

Cash includes cash-on-hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks and investments in financial instruments, net of bank overdrafts.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

1.19 UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

1.20 IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000), and the Public Office Bearers Act (Act No 20 of 1998) or is in contravention of the Municipality's or Municipal Entities' supply chain management policies. Irregular expenditure excludes unauthorised expenditure. Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

1.21 FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

1.22 CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND ERRORS

Changes in accounting policies due to adoption of newly effective Standards of GRAP have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy or where allowed transitional provisions had been adopted. In such cases the municipality would restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Errors are corrected retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality would restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

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1.23 RELATED PARTIES

Individuals, including councilors, as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.24 EVENTS AFTER THE REPORTING DATE

Events after the reporting date that have been classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

1.25 COMPARATIVE INFORMATION

1.25.1 Prior year comparatives

When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are reclassified. The nature and reasons for the reclassification are disclosed.

1.26 CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes to the annual financial statements.

1.27 TREATMENT OF ADMINISTRATION AND OTHER OVERHEAD EXPENSES

The costs of internal support services are transferred to the various services and departments to whom resources are made available.

1.28 RESERVES

1.28.1 Capital Replacement Reserve (CRR)

In order to finance capital assets from internal sources, amounts are transferred out of the accumulated surplus into the Capital Replacement Reserve (CRR) in terms of the funding and reserves policy adopted by the Municipality. The cash in the CRR can only be used to finance capital expenditure appropriated in an approved budget. The CRR is reduced and the accumulated surplus is credited by a corresponding amount when the amounts in the CRR are utilized.

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Notes to the Financial Statements

| Figures in Rand | 2018 | 2017 |
|------------------------------------|------------------|------------------|
| 2. Inventory | | |
| Electricity materials and supplies | 2,043,809 | 1,747,510 |
| Consumables stores | 1,213,217 | 1,100,584 |
| | 3,257,026 | 2,848,094 |

No impairments of the values of inventory have been written off as management considers that all stores are useable and any losses on ultimate realisation are immaterial. Periodically, physical stock counts are carried out and any obsolete and redundant items are identified and written off under Council authority.

3. Receivables from exchange transactions

| | | |
|-------------------------------------|-------------------|-------------------|
| Deposits with creditors | 739,165 | 739,165 |
| Payments made in advance | 124,527 | 338,668 |
| Housing installments | 186,982 | 51,154 |
| Land sales | 96,555 | 90,000 |
| Electricity | 8,086,748 | 5,260,115 |
| Sundry debtors | 1,574,173 | 2,765,529 |
| Refuse | 2,665,832 | 1,145,875 |
| Consumer deposits raised | 357,870 | - |
| | 13,831,852 | 10,390,506 |
| Housing installments | 2,061,985 | 1,925,923 |
| Less: Allowance for debt impairment | (1,875,003) | (1,874,769) |
| | 186,982 | 51,154 |
| Electricity | 9,825,663 | 6,662,911 |
| Less: Allowance for debt impairment | (1,738,915) | (1,402,796) |
| | 8,086,748 | 5,260,115 |
| Sundry debtors | 5,320,691 | 4,297,594 |
| Less: Allowance for debt impairment | (3,746,518) | (1,521,627) |
| | 1,574,173 | 2,775,967 |
| Refuse | 5,383,701 | 3,122,497 |
| Less: Allowance for debt impairment | (2,717,869) | (1,976,622) |
| | 2,665,832 | 1,145,875 |
| Consumer deposits raised | 378,061 | - |
| Less: Allowance for debt impairment | (20,192) | - |
| | 357,869 | - |

Management have considered the effects of any impairment in the values of outstanding and the value of the allowance for doubtful debts. The allowance is adequate to account for any material losses expected to arise from any adjustments that are required to be made to outstanding balances.

Amounts written off as doubtful debts in 2018: R12 434 855 (2017: R735)
As a percentage of total operating revenue in 2018: 3.05% (2017: 0.0002%)
Debtors - number of days outstanding in 2018: 202 days (2017: 139 days)

Age analysis

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Financial Statements for the year ended 30 June 2018

Notes to the Financial Statements

| Figures in Rand | 2018 | 2017 |
|--|------------------|------------------|
| 3. Receivables from exchange transactions (continued) | | |
| Housing installments | | |
| Current (0 to 30 days) | 83,112 | 32,455 |
| 31 to 60 days | 31,014 | 21,051 |
| 61 to 90 days | 5,131 | 4,689 |
| 91 to 120 days | 4,944 | 4,590 |
| 121 days and over | 1,937,784 | 1,863,138 |
| | 2,061,985 | 1,925,923 |
| Electricity | | |
| Current (0 to 30 days) | 3,387,414 | 5,224,513 |
| 31 to 60 days | 3,595,479 | 57,616 |
| 61 to 90 days | 1,075,911 | 41,894 |
| 91 to 120 days | 428,843 | 31,915 |
| 121 days and over | 1,366,481 | 1,306,973 |
| | 9,854,128 | 6,662,911 |
| Sundry debtors | | |
| Current (0 to 30 days) | 1,163,989 | 697,590 |
| 31 to 60 days | 351,128 | 3,896 |
| 61 to 90 days | 45,731 | 32,356 |
| 91 to 120 days | 69,252 | 70,584 |
| 121 days and over | 3,690,491 | 3,493,167 |
| | 5,320,591 | 4,297,593 |
| Refuse | | |
| Current (0 to 30 days) | 1,365,978 | 1,163,547 |
| 31 to 60 days | 873,440 | 98,058 |
| 61 to 90 days | 444,231 | 78,052 |
| 91 to 120 days | 260,599 | 64,074 |
| 121 days and over | 2,439,453 | 1,718,766 |
| | 5,383,701 | 3,122,497 |
| Consumer deposits debtors | | |
| Current (0 to 30 days) | 286,510 | - |
| 31 to 60 days | 28,235 | - |
| 61 to 90 days | 12,023 | - |
| 91 to 120 days | 17,540 | - |
| 121 days and over | 13,562 | - |
| | 357,870 | - |

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2018

Notes to the Financial Statements

| Figures in Rand | 2018 | 2017 |
|--|-------------------|-------------------|
| 3. Receivables from exchange transactions (continued) | | |
| Summary of receivables by Consumer Classification | | |
| Residential | 11,230,073 | 8,891,978 |
| Commercial and Industrial | 3,498,594 | 3,696,556 |
| National and Provincial Government | 5,013,032 | 1,561,197 |
| Payments in advance | 2,213,714 | 812,981 |
| | 21,955,413 | 14,962,712 |
| Reconciliation of the allowance for debt impairment for receivables from exchange transactions: | | |
| Balance at the beginning of the year | 6,775,814 | 6,683,967 |
| Contributions to allowance: From operating account | 3,946,212 | 92,582 |
| Doubtful debts written off | (595,065) | (735) |
| | 10,126,961 | 6,775,814 |
| Refer to Note 58 for details regarding the restatement of previous year balances. | | |
| 4. Receivables from non-exchange transactions | | |
| Fruitless and wasteful expenditure | 1,801,831 | 22,634 |
| Property rates | 6,134,105 | 3,756,640 |
| Traffic fines | 7,167,242 | 5,445,897 |
| | 15,103,178 | 9,225,171 |
| Fruitless and wasteful expenditure (Note 53) | 1,824,465 | 1,448,616 |
| Less: Allowance for debt impairment | (22,634) | (1,425,982) |
| | 1,801,831 | 22,634 |
| Property rates | 41,302,607 | 35,378,668 |
| Less: Allowance for debt impairment | (35,168,809) | (31,622,028) |
| | 6,133,798 | 3,756,640 |
| Traffic fines | 127,134,296 | 93,646,582 |
| Less: Allowance for debt impairment | (119,967,054) | (88,200,685) |
| | 7,167,242 | 5,445,897 |

Age analysis

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2018

Notes to the Financial Statements

| Figures in Rand | 2018 | 2017 |
|--|--------------------|-------------------|
| 4. Receivables from non-exchange transactions (continued) | | |
| Fruitless and wasteful expenditure | | |
| Current (0 to 30 days) | 1,438 | - |
| 91 to 120 days | 1,783,081 | - |
| 121 days and over | 17,312 | 22,634 |
| | 1,801,831 | 22,634 |
| Property rates | | |
| Current (0 to 30 days) | 8,588,427 | 4,525,575 |
| 31 To 60 days | 1,754,526 | 441,211 |
| 61 to 90 days | 737,546 | 368,521 |
| 91 to 120 days | 485,093 | 319,548 |
| 121 days and over | 29,737,013 | 29,723,813 |
| | 41,302,605 | 35,378,668 |
| Summary of Rates by Consumer Classification | | |
| Residential | 7,336,381 | 6,914,845 |
| Commercial and Industrial | 1,946,536 | 1,327,077 |
| National and Provincial Government | 29,010,914 | 25,860,280 |
| Payments in advance | 3,008,774 | 1,276,466 |
| | 41,302,605 | 35,378,668 |
| Reconciliation of the allowance of debt impairment for Fruitless and wasteful expenditure | | |
| Contributions to allowance: From operating account | 22,634 | - |
| Reconciliation of the allowance of debt impairment for Rates | | |
| Balance at the beginning of the year | 31,622,028 | 17,179,008 |
| Contributions to allowance: From operating account | 3,916,352 | 14,443,020 |
| Doubtful debts written off | (369,880) | - |
| | 35,168,500 | 31,622,028 |
| Reconciliation of the allowance of debt impairment for Traffic fines | | |
| Balance at the beginning of the year | 88,200,686 | 58,752,408 |
| Contributions to allowance: From operating account | 43,236,278 | 29,448,278 |
| Doubtful debts written off | (11,469,910) | - |
| | 119,967,054 | 88,200,686 |
| Summary of allowance for debt impairment for the year | | |
| Receivables from exchange transactions: Operating account | 3,945,977 | 92,582 |
| Receivables from exchange transactions: Housing operating account | - | 6,962 |
| Receivables from non-exchange transactions: Fruitless and wasteful expenditure - operating account | 22,634 | - |
| Receivables from non-exchange transactions: Rates - operating account | 3,916,353 | 14,443,020 |
| Receivables from non-exchange transactions: Traffic fines - operating account | 43,236,279 | 29,448,277 |
| | 51,121,243 | 43,990,841 |
| Refer to Note 58 for details regarding the restatement of previous year balances. | | |
| 5. VAT receivable | | |
| VAT | 5,637,579 | 3,438,057 |

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2018

Notes to the Financial Statements

| Figures in Rand | 2018 | 2017 |
|-----------------|------|------|
|-----------------|------|------|

6. Cash and cash equivalents

The municipality has the following bank account:

Current account (Primary Bank Account)

First National Bank Limited, Eshowe branch

Account No. 52 191 090 523

Bank statement balance

| | | |
|------------------------------|-----------|-----------|
| At the beginning of the year | 2,995,385 | 2,322,780 |
|------------------------------|-----------|-----------|

Bank statement balance

| | | |
|------------------------|-----------|-----------|
| At the end of the year | 3,309,084 | 2,995,385 |
|------------------------|-----------|-----------|

Cash and cash equivalents consist of the following:

| | | |
|--|-------------------|-------------------|
| Petty cash and floats | 16,140 | 26,140 |
| Cash book balance at the end of the year | 6,436,023 | 3,539,442 |
| Short-term investment deposits | 93,318,646 | 82,557,156 |
| | 99,770,809 | 86,122,738 |

Short-term investment deposits

| | | |
|--------------------------|-------------------|-------------------|
| First National Bank | 19,780,053 | 18,653,705 |
| Investec Specialist Bank | 9,445,485 | 118,402 |
| Nedbank Corporate | 13,932,473 | 13,055,627 |
| Standard Bank | 50,160,635 | 40,729,422 |
| | 93,318,646 | 72,557,156 |

7. Property, plant and equipment

| | 2018 | | | 2017 | | |
|---------------------------|----------------------|---|--------------------|----------------------|---|--------------------|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Land | 129,586,164 | - | 129,586,164 | 129,664,164 | - | 129,664,164 |
| Plant and machinery | 7,652,579 | (4,454,393) | 3,198,186 | 8,910,126 | (5,270,307) | 3,639,819 |
| Furniture and fixtures | 7,729,162 | (4,713,527) | 3,015,635 | 7,521,172 | (4,551,154) | 2,970,018 |
| Motor vehicles | 28,463,692 | (17,584,746) | 10,878,946 | 27,561,248 | (13,524,978) | 14,036,270 |
| IT equipment | 11,601,391 | (4,414,306) | 7,187,085 | 10,592,035 | (3,329,690) | 7,262,345 |
| Infrastructure | 682,688,691 | (280,823,178) | 401,865,513 | 628,809,094 | (254,599,284) | 374,209,810 |
| Community | 312,601,184 | (92,122,477) | 220,478,707 | 277,133,857 | (76,628,392) | 200,505,465 |
| Assets under construction | 23,536,585 | - | 23,536,585 | 72,570,459 | - | 72,570,459 |
| Total | 1,203,859,448 | (404,112,627) | 799,746,821 | 1,162,762,155 | (357,903,805) | 804,858,350 |

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2018

Notes to the Financial Statements

Figures in Rand

7. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

| | Opening balance | Additions | Disposals | Transfers received | Depreciation/ impairment disposals | Depreciation | Impairment loss | Total |
|---------------------------|--------------------|-------------------|--------------------|-----------------------|--|---------------------|--------------------|--------------------|
| Land | 129,664,164 | - | (78,000) | - | - | - | - | 129,586,164 |
| Plant and machinery | 3,639,819 | 771,966 | (2,029,513) | - | 1,816,189 | (1,000,275) | - | 3,198,186 |
| Furniture and fixtures | 2,970,018 | 869,607 | (864,126) | 202,509 | 775,303 | (937,676) | - | 3,015,635 |
| Motor vehicles | 14,036,270 | 1,381,429 | (478,985) | - | 380,655 | (4,440,423) | - | 10,878,946 |
| IT equipment | 7,262,345 | 1,534,596 | (621,272) | 96,032 | 473,437 | (1,558,053) | - | 7,187,085 |
| Infrastructure | 374,209,810 | 54,518,985 | (639,388) | - | 290,197 | (23,636,374) | (2,877,717) | 401,865,513 |
| Community | 200,505,465 | 36,086,379 | (619,052) | - | 459,557 | (15,928,166) | (25,476) | 220,478,707 |
| Assets under construction | 72,570,459 | (49,033,874) | - | - | - | - | - | 23,536,585 |
| | 804,858,350 | 46,129,088 | (5,330,336) | 298,541 | 4,195,338 | (47,500,967) | (2,903,193) | 799,746,821 |

Reconciliation of property, plant and equipment - 2017

| | Opening balance | Additions | Disposals | Other changes, movements | Depreciation | Impairment loss | Impairment reversal | Total |
|---------------------------|--------------------|-------------------|--------------------|--------------------------------|---------------------|--------------------|------------------------|--------------------|
| Land | 131,596,827 | - | - | (1,932,663) | - | - | - | 129,664,164 |
| Plant and machinery | 4,185,921 | 496,682 | (379,181) | - | (726,675) | - | 63,072 | 3,639,819 |
| Furniture and fixtures | 3,251,757 | 628,742 | (409,779) | - | (531,891) | - | 31,189 | 2,970,018 |
| Motor vehicles | 13,371,616 | 4,051,614 | (2,458,970) | - | (987,718) | - | 59,728 | 14,036,270 |
| IT equipment | 4,291,630 | 4,460,197 | (863,177) | - | (625,279) | (1,026) | - | 7,262,345 |
| Infrastructure | 352,600,341 | 1,592,057 | - | 30,088,396 | (10,205,718) | - | 134,734 | 374,209,810 |
| Community | 208,279,999 | 1,248,455 | - | 4,403,020 | (13,413,157) | (12,852) | - | 200,505,465 |
| Assets under construction | 61,652,339 | 62,082,769 | - | (51,164,649) | - | - | - | 72,570,459 |
| | 779,230,430 | 74,560,516 | (4,111,107) | (18,605,896) | (26,490,438) | (13,878) | 288,723 | 804,858,350 |

8. Assets under construction

As at 30 June 2017

| | | |
|---|---|-------------------|
| New testing station | - | 1,003,402 |
| Devine Life Society of SA (Crèches) | - | 1,170,000 |
| Redundant assets storage building | - | 1,287,697 |
| Sqwanjana community hall | - | 7,589,249 |
| Kwayabu sports field | - | 4,040,122 |
| Kwabulawayo sports field | - | 21,630,669 |
| Mvutshini sports field | - | 311,347 |
| Nkume sports field | - | 2,484,208 |
| Eshowe Bus & Taxi Rank - Exit road | - | 797,417 |
| Link road: Industrial area and Eshowe taxi rank | - | 8,533,226 |
| Emtilombo causeway | - | 237,313 |
| Gingindlovu storm water | - | 96,600 |
| Gingindlovu Main Street | - | 607,259 |
| Hlungwini gravel road | - | 513,803 |
| Mbangayiya access road & causeway | - | 625,343 |
| Mhabha causeway | - | 252,558 |
| Mitchell street | - | 217,500 |
| Mtipela road | - | 7,216,341 |
| King Dinuzulu Suburb passage walkway | - | 248,785 |
| Qhiko gravel road | - | 613,672 |
| Rehabilitation of urban roads | - | 1,813,371 |
| King Dinuzulu Suburb bus route | - | 11,280,577 |
| | - | 72,570,459 |

As at 30 June 2018

| | | |
|--|-------------------|---|
| New testing station | 1,003,402 | - |
| Devine Life Society of SA (Crèches) | 1,170,000 | - |
| Mvutshini sports field | 3,176,185 | - |
| Nkume sports field | 2,484,208 | - |
| Gingindlovu storm water | 96,600 | - |
| Mhabha causeway | 252,558 | - |
| Emtilombo causeway | 237,313 | - |
| Mitchell street | 217,500 | - |
| King Dinuzulu Suburb bus route (Phase 2) | 3,789,250 | - |
| Obanjeni community hall | 149,123 | - |
| Kwagalagala road | 109,649 | - |
| Mahhusheni and Mathibelane roads | 195,357 | - |
| Nteneshane sports field | 241,228 | - |
| Kwabulawayo sports complex (Phase 2) | 251,725 | - |
| Fencing at Sunnydale Low Cost Minisub | 25,500 | - |
| Izingwenya community hall | 222,807 | - |
| Galvinised gates at Informal Trading Centre (Eshowe bus and taxi rank) | 225,000 | - |
| Sidewalks: Sunnydale (Brockwell and Marris Street) | 43,775 | - |
| Fencing at Taxi Rank Minisub | 14,085 | - |
| Cemetery pathways at Mpushini Park | 85,377 | - |
| Nkume community hall | 258,067 | - |
| Mthintombi road | 264,832 | - |
| Bhekeshowe community hall | 665,401 | - |
| Storm water - Uvasi Street | 138,267 | - |
| Mbangayiya road and causeway | 7,058,546 | - |
| Mtipela/Ntabankulu Gravel road (Phase 2) | 1,066,720 | - |
| Steel pallisade fence at Sunnydale library | 94,110 | - |
| | 23,536,585 | - |

9. Repairs and maintenance on Infrastructure Assets

| | | |
|-----------------------|-------------------|-------------------|
| Community assets | 4,284,998 | 1,212,596 |
| Roads and storm water | 11,549,248 | 11,756,103 |
| Electricity | 6,856,784 | 1,986,734 |
| | 22,691,030 | 14,955,433 |

10. Intangible assets

| | 2018 | | | 2017 | | |
|-------------------|---------------------|---|----------------|---------------------|---|----------------|
| | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value |
| Computer software | 1,200,819 | (719,240) | 481,579 | 2,293,960 | (1,494,892) | 799,068 |

Intangible assets are initially recognised at cost and are carried at cost less depreciation.

The municipality does not have any internally generated intangible assets.

Reconciliation of intangible assets - 2018

| | Opening balance | Additions | Disposals | Amortisation disposal | Amortisation | Total |
|-------------------|--------------------|-----------|-------------|--------------------------|--------------|---------|
| Computer software | 799,068 | 111,377 | (1,204,518) | 1,152,320 | (376,668) | 481,579 |

Reconciliation of intangible assets - 2017

| | Opening balance | Difference | Additions | Amortisation | Total |
|-------------------|--------------------|------------|-----------|--------------|---------|
| Computer software | 619,254 | 2 | 456,383 | (276,571) | 799,068 |

11. Investment property carried at fair value

Investment property held by the municipality is as follows:

- i) land leased for cane farming
- ii) land leased to Government Departments
- iii) land and buildings leased to sports associations
- iv) crematorium at Eshowe cemetery
- v) additional pieces of land leased by property owners

The fair value of these properties as valued by the Council's valuers Messrs. Umhlaba Geomatics inc on 12 July 2018.

- iv) crematorium at Eshowe cemetery
- v) additional pieces of land leased by property owners

The fair value of these properties as valued by the Council's valuers Messrs. Umhlaba Geomatics inc.

- v) additional pieces of land leased by property owners

11. Investment property carried at fair value (continued)

Additional text

| | 2018 | | | 2017 | | |
|--|---------------------|---|----------------|---------------------|---|----------------|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Investment property | 17,879,000 | - | 17,879,000 | 16,257,000 | - | 16,257,000 |
| Properties classified as investment properties at municipal value. | | | | | 18,426,000 | 6,001,000 |
| Rental income derived from these properties amount to | | | | | 987,547 | 1,145,716 |

Reconciliation of investment property carried at fair value - 2018

| | Opening balance | Fair value adjustments | Total |
|---------------------|--------------------|---------------------------|------------|
| Investment property | 16,257,000 | 1,622,000 | 17,879,000 |

Reconciliation of investment property carried at fair value - 2017

| | Opening balance | Total |
|---------------------|--------------------|------------|
| Investment property | 16,257,000 | 16,257,000 |

12. Heritage assets

| | 2018 | | | 2017 | | |
|-----------------------------------|---------------------|-------------------------------------|-------------------|---------------------|-------------------------------------|-------------------|
| | Cost / Valuation | Accumulated impairment losses | Carrying value | Cost / Valuation | Accumulated impairment losses | Carrying value |
| Zlululand historical museum | 9,232,212 | - | 9,232,212 | 9,232,212 | - | 9,232,212 |
| Office bearer's ceremonial chains | 1,079,132 | - | 1,079,132 | 1,079,132 | - | 1,079,132 |
| Total | 10,311,344 | - | 10,311,344 | 10,311,344 | - | 10,311,344 |

13. Investments

Unlisted

| | | |
|--|-------|-------|
| Shares in co-operative - Coastal Farmers | 1,000 | 1,000 |
|--|-------|-------|

Non-current assets

| | | |
|----------|-------|-------|
| Unlisted | 1,000 | 1,000 |
|----------|-------|-------|

14. Loans receivable

| | | |
|---------------|----------------|----------------|
| Old age home | 53,556 | 68,906 |
| Housing loans | 610,971 | 590,264 |
| | 664,527 | 659,170 |

Current portion transferred to current receivables

| | | |
|---------------|---------------|---------------|
| Old age home | 15,349 | 15,349 |
| Housing loans | - | 6,956 |
| | 15,349 | 22,305 |

Summary

| | | |
|---|----------------|----------------|
| Loans receivable (Non-current assets) | 664,527 | 659,170 |
| Current portion transferred to current assets | (15,349) | (22,305) |
| | 649,178 | 636,865 |

Housing selling scheme loans

Loans have been granted to individuals who qualified in terms of the KwaZulu-Natal Department of Human Settlements programme. The loans are repayable over terms ranging from 5 to 30 years at rates varying between 11.25% and 13.5%.

15. Consumer deposits

| | | |
|------------------------|------------------|------------------|
| Electricity and refuse | 2,247,035 | 1,911,455 |
| Deposits other | 80,685 | 73,299 |
| | 2,327,720 | 1,984,754 |

Guarantees held:

| | | |
|---------------------------------|---------|---------|
| In lieu of electricity deposits | 319,750 | 319,750 |
|---------------------------------|---------|---------|

Refer to Note 58 for details regarding the restatement of previous year balances.

16. Payables from exchange transactions

| | | |
|------------------------------|-------------------|-------------------|
| Retention monies | 5,313,827 | 7,994,924 |
| Unidentified direct deposits | 813,930 | 604,518 |
| Employee overtime/ standby | 375,118 | 410,207 |
| Payments received in advance | 6,344,487 | 3,101,781 |
| Creditors control | 21,307,552 | 22,654,065 |
| Salaries control | 105,557 | - |
| | 34,260,471 | 34,765,495 |

The fair value of trade and other payables approximate their carrying amounts. Trade and other payables approximate their carrying amounts. Trade and other for the first 30 days from the date of receipt of the invoice/statement. Thereafter interest is charged in accordance with the credit policies of the various individual creditors.

Refer to Note 58 for details regarding the restatement of previous year balances.

17. VAT payable

| | | |
|-------------|-----------|-----------|
| VAT payable | 3,040,252 | 1,062,005 |
|-------------|-----------|-----------|

18. Unspent conditional grants and receipts**Unspent conditional grants from spheres of government**

| | | |
|-----------------------|----------------|------------------|
| Provincial grants | 906,082 | 845,257 |
| District Municipality | 26,114 | 180,000 |
| | 932,196 | 1,025,257 |

These amounts are invested in ring-fenced short-term deposits until utilised in terms of Section 12 of the MFMA.

Refer to note 34 for reconciliation of grants. Also refer to Appendix E for detail grants

Refer to Note 58 for details regarding the restatement of previous year balances.

19. Provision for employee benefits**Reconciliation of provision for employee benefits - 2018**

| | Opening Balance | Additions | Utilised during the year | Total |
|---|----------------------------|------------------|---|------------------|
| Accrued staff leave | 5,270,748 | 2,337,019 | (2,532,287) | 5,075,480 |
| Staff bonuses accrual | 3,591,789 | 3,597,924 | (3,369,587) | 3,820,126 |
| Current of post retirement medical benefits | 664,000 | 12,000 | (526,254) | 149,746 |
| Current portion long service awards | 562,000 | 33,000 | (394,574) | 200,426 |
| | 10,088,537 | 5,979,943 | (6,822,702) | 9,245,778 |

Reconciliation of provision for employee benefits - 2017

| | Opening Balance | Additions | Utilised during the year | Total |
|---|----------------------------|------------------|---|-------------------|
| Accrued staff leave | 4,552,044 | 2,664,740 | (1,946,036) | 5,270,748 |
| Staff bonuses accrual | 3,340,343 | 3,283,511 | (3,032,065) | 3,591,789 |
| Current of post retirement medical benefits | - | 664,000 | - | 664,000 |
| Current portion long service awards | - | 562,000 | - | 562,000 |
| | 7,892,387 | 7,174,251 | (4,978,101) | 10,088,537 |

Accrued staff leave:

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days due to employees at year-end and the total remuneration package of the employee.

Performance bonuses accrual:

Performance bonuses accrue to employees on an annual basis, subject to certain conditions. The accrual is an estimate of the amount due to staff as at the financial year end.

Refer to Note 58 for details regarding the restatement of previous year balances.

20. Loans payable**Annuity loans**

| | | |
|--|---------|---------|
| Current portion transferred to current liabilities | 342,816 | 342,816 |
|--|---------|---------|

| | | |
|---------------|-----------|-----------|
| Annuity loans | 3,545,368 | 3,898,376 |
|---------------|-----------|-----------|

(Refer to Appendix A for more detail)

20. Loans payable (continued)

Bear interest of 12.422% per annum, and is redeemed in bi-annual installments, including interest, over a period of 20 years.

Fair value impairment

Long term loans are recorded at the actual liability to loan creditors. No impairment, if any has been recognised.

Non-current liabilities

| | | |
|---------------|-----------|-----------|
| Loans payable | 3,545,368 | 3,898,376 |
|---------------|-----------|-----------|

Current liabilities

| | | |
|----------------------------------|---------|---------|
| Current portion of loans payable | 342,816 | 342,816 |
|----------------------------------|---------|---------|

Refer to Note 58 for details regarding the restatement of previous year balances.

21. Employee benefit obligations

21.1 Provision for post retirement medical benefits

The Council operates a defined medical aid benefit scheme for the benefit of its permanent employees. Post-retirement medical aid benefits are offered to all employees by subsidising a portion of the medical aid provision after retirement.

An actuarial valuation was carried out at 30 June 2018 and the full liability has been raised which relates to retired employees and existing employees. The main assumptions used by the actuary are:

Discount rate per annum - Yield curve

Health care cost inflation rate - CPI + 1%

Health care cost inflation rate - Yield curve based

Medical benefit inflation (long term) CPI increases - Difference between nominal and yield curves

Sensitivity analysis:

Mortality rate

Deviations from the assumed level of mortality experience of the current employees and the continuation members (pensioners) will have a large impact on the actual cost to the Municipality, if the actual rates of mortality turns out higher than the rates assumed in the valuation basis, the cost to the Municipality in the form of subsidies will reduce and vice versa.

We have illustrated the effect of higher and lower mortality rates by increasing and decreasing the mortality rates by 20%.

21. Employee benefit obligations (continued)

The effect is as follows:

| | Mortality rate minus 20% | Valuation Assumption | Mortality rate plus 20% |
|-------------------------|-----------------------------|-------------------------|----------------------------|
| Total accrued liability | 15,584,000 | 14,486,000 | 13,552,000 |
| Interest cost | 1,553,000 | 1,441,000 | 1,346,000 |
| Service cost | 736,000 | 676,000 | 625,000 |
| | 17,873,000 | 16,603,000 | 15,523,000 |

Medical aid inflation

The cost of the subsidy after retirement is dependent on the increase in the contributions to the medical aid scheme before and after retirement. The rate at which these contributions increase will thus have a direct effect on the liability of future retirees.

We have tested the effect of a 1% p.a change in the medical aid inflation.

The effect is as follows:

| | Medical aid inflation-minus 1% | Valuation assumption | Medical aid inflation-plus 1% |
|-------------------------|--------------------------------------|-------------------------|-------------------------------------|
| Total accrued liability | 13,821,000 | 14,486,000 | 15,011,000 |
| Interest cost | 1,372,000 | 1,441,000 | 1,495,000 |
| Service cost | 624,000 | 676,000 | 716,000 |
| | 15,817,000 | 16,603,000 | 17,222,000 |

Projected accrued liability at 30 June 2019

| | | |
|-----------------------------------|-------------------|-------------------|
| Accrued liability at 30 June 2018 | 14,486,000 | 14,138,000 |
| Future - service cost | 676,000 | 664,000 |
| Interest cost | 1,441,000 | 1,426,000 |
| Expected benefits payments | (628,000) | (519,000) |
| | 15,975,000 | 15,709,000 |

Long term

| | | |
|--|-------------------|-------------------|
| Total liability | 14,486,000 | 14,138,000 |
| Current portion of long term liability (Note 19) | (676,000) | (664,000) |
| | 13,810,000 | 13,474,000 |

21.2 Provision for long-service awards

The Council offers employees leave awards that may be exchanged for cash on certain anniversaries of commencing service and a retirement gift determined by reference to length of service.

An actuarial valuation was carried out at 30 June 2018 and the full liability has been raised. The main assumption used by the actuary are:

Discount rate per annum - Yield curve

General salary inflation rate (long term) - CPI + 1%

Net effective discount rate - Yield curve based

Benchmark inflation (equal to salary inflation) - Difference between nominal and yield curves

Sensitivity analysis:

Withdrawal rate

21. Employee benefit obligations (continued)

Deviations from the assumed level of withdrawal experience of the eligible employees will have a large impact on the actual cost to the Municipality. If the actual rates of withdrawal turns out to be higher than the rates assumed in the valuation basis, then the cost to the Municipality in the form of benefits will reduce and vice versa.

We have illustrated the effect of higher and lower withdrawal rates by increasing and decreasing the withdrawal rates by 20%.

The effect is as follows:

| | Withdrawal rate minus 20% | Valuation Assumption | Withdrawal rate plus 20% |
|-------------------------|---------------------------------|-------------------------|-----------------------------|
| Total accrued liability | 5,891,000 | 5,519,000 | 5,190,000 |
| Interest cost | 599,000 | 558,000 | 523,000 |
| Service cost | 664,000 | 595,000 | 538,000 |
| | 7,154,000 | 6,672,000 | 6,251,000 |

Normal salary inflation

The cost of the long service awards is dependent on the increase in the annual salaries paid to employees. The rate at which salaries increase will thus have a direct effect on the liability of future employees.

We have tested the effect of a 1% p.a change in the normal salary inflation assumption.

The effect is as follows:

| | Normal salary inflation - minus 1% | Valuation Assumption | Normal salary inflation - plus 1% |
|-------------------------|--|-------------------------|---|
| Total accrued liability | 5,139,000 | 5,519,000 | 5,942,000 |
| Interest cost | 518,000 | 558,000 | 603,000 |
| Service cost | 542,000 | 595,000 | 656,000 |
| | 6,199,000 | 6,672,000 | 7,201,000 |

Projected accrued liability at 30 June 2019

| | | |
|-----------------------------------|------------------|------------------|
| Accrued liability at 30 June 2018 | 5,519,000 | 4,878,000 |
| Future - service cost | 595,000 | 562,000 |
| Interest cost | 558,000 | 495,000 |
| Expected benefits payments | (727,000) | (472,000) |
| | 5,945,000 | 5,463,000 |

Long term

| | | |
|--|------------------|------------------|
| Total liability | 5,519,000 | 4,878,000 |
| Current portion of long term liability (Note 19) | (595,000) | (562,000) |
| | 4,924,000 | 4,316,000 |

Total employee benefit obligations

| | | |
|----------------------------------|-------------------|-------------------|
| Post retirement medical benefits | 13,810,000 | 13,474,000 |
| Long service awards | 4,924,000 | 4,316,000 |
| | 18,734,000 | 17,790,000 |

22. Housing operating account

| | | |
|---------------------------------------|-------------------|------------------|
| Government loans extinguished in 1998 | 4,048,138 | 5,380,172 |
| Installments received from borrowers | 8,258,518 | 6,264,211 |
| Accumulated deficit | (2,077,790) | (1,927,790) |
| | 10,228,866 | 9,716,593 |

Fixed assets

| | | |
|-------------------------------------|-------------------|------------------|
| Debtors - short term | 2,061,985 | 1,925,923 |
| Debtors - long term | 664,527 | 659,170 |
| Short term deposit - external | 8,258,518 | 6,264,211 |
| Bank balance at the end of the year | (756,164) | 867,289 |
| | 10,228,866 | 9,716,593 |

23. Accumulated surplus

| | | |
|--------------------------------------|--------------------|--------------------|
| Balance at the beginning of the year | 828,606,974 | 800,575,113 |
| Operating surplus for the year | 16,972,303 | 20,451,122 |
| Funding of capital projects | 1,376,536 | 15,935,159 |
| Prior year adjustments | (19,387,386) | (8,354,420) |
| | 827,568,427 | 828,606,974 |

Capital replacement reserve

| | | |
|---|-------------------|-------------------|
| Balance at the beginning of the year | 30,043,681 | 36,339,185 |
| Transfer of unspent capital equitable share grant funding | 5,490,031 | 403,542 |
| Interest received on investment | 3,942,532 | 2,222,247 |
| Transfer of unspent operating equitable share grant | 5,913,333 | 1,540,354 |
| Interest received on short-term deposits | 3,028,354 | 5,154,421 |
| Land sales contributions | 115,000 | 319,091 |
| Additional cash contribution | 3,000,000 | - |
| Less: Funding of capital projects | (1,376,536) | (15,935,159) |
| | 50,156,395 | 30,043,681 |

Public contributions and receipts

| | | |
|--|------------------|------------------|
| Balance at the beginning of the year | 5,586,010 | 6,653,129 |
| Contributions received during the year | - | 2,784 |
| Interest received on short-term deposits | 416,416 | 245,700 |
| Less: Funding of projects | - | (1,315,603) |
| | 6,002,426 | 5,586,010 |

The Capital Replacement Reserve is ring-fenced within the accumulated surplus and is fully funded and invested.

Public contributions and receipts include funds such as Electrical Network Upgrade, Indigent Support and SMME Establishment. The funds are ring-fenced within the accumulated surplus and is fully funded and invested.

Accumulated surplus/ (deficit) at the end of the year

| | | |
|-----------------------------------|--------------------|--------------------|
| Accumulated surplus | 827,868,427 | 828,606,974 |
| Capital replacement reserve | 50,156,395 | 30,043,681 |
| Public contributions and receipts | 6,002,426 | 5,586,010 |
| | 884,027,248 | 864,236,665 |

Refer to Note 58 for details regarding the restatement of previous year balances.

24. Service charges

| | | |
|---------------------|-------------------|-------------------|
| Sale of electricity | 67,479,021 | 60,821,005 |
| Refuse removal | 11,355,088 | 9,866,266 |
| | 78,834,109 | 70,687,271 |

The service charges revenue are in respect of services rendered to consumers and billed in terms of 'the Council's approved tariffs.

25. Rental of facilities and equipment**Premises**

| | | |
|-------------------------------------|------------------|------------------|
| Community halls | 136,479 | 145,756 |
| Sugar cane leases and other rentals | 1,366,442 | 1,429,662 |
| Rental of municipal houses | 120,485 | 126,109 |
| | 1,623,406 | 1,701,527 |

26. Interest earned**Interest revenue**

| | | |
|----------------------------------|------------------|------------------|
| Current account | 286,476 | 412,615 |
| Short - term investment deposits | 3,942,514 | 5,154,421 |
| | 4,228,990 | 5,567,036 |

27. Agency services

| | | |
|--------------------------|------------------|------------------|
| Registration of vehicles | 2,208,406 | 1,561,945 |
| Testing station fees | 896,878 | 1,897,400 |
| | 3,105,284 | 3,459,345 |

28. Licences and permits

| | | |
|------------------|-------|-------|
| Trading licences | 7,075 | 4,075 |
|------------------|-------|-------|

29. Other income

| | | |
|--------------------------------|------------------|------------------|
| Advertisements | 2,602 | 60 |
| Administrative handling fees | 70,024 | 300,659 |
| Breakages and losses recovered | 3,487 | 1,476 |
| Building plan approvals | 313,588 | 359,432 |
| Cemetery and burial fees | 133,597 | 162,974 |
| Cleaning and removal | 60,459 | 49,507 |
| Clearance certificates | 71,035 | 44,095 |
| Commission | 188,693 | 36,357 |
| Encroachment fees | - | 61,103 |
| Entrance fees | 16,465 | 14,045 |
| Photocopies and faxes | 493,784 | 643,745 |
| Sale of E-cards | 11,084 | - |
| Skills development levy refund | 61,243 | 177,815 |
| Town planning and servitudes | 35,375 | 84,557 |
| | 1,461,436 | 1,935,825 |

30. Gain/ (loss) on sale of assets

| | | |
|-------------------------------|--------|---------|
| Property, plant and equipment | 22,877 | 400,415 |
|-------------------------------|--------|---------|

Gain on sale has resulted from a sale of Erf 12 Gingindlovu.

| | |
|----------------|-----------------|
| Selling price | R100 877 |
| Carrying value | R 78 000 |
| Gain on sale | R 22 877 |

31. Property rates

Rates received

| | | |
|-------------------------------|-------------------|-------------------|
| Residential | 24,566,968 | 22,794,892 |
| Commercial | 10,261,980 | 9,582,235 |
| Education and state | 24,322,962 | 25,088,377 |
| Agriculture | 5,261,220 | 3,935,838 |
| Municipal | 1,918,685 | 2,053,747 |
| Public benefit | 190,306 | 174,898 |
| Vacant land | 7,892,445 | 6,498,263 |
| Mining | 430,081 | 404,219 |
| Public service infrastructure | 4,468,148 | 5,117,709 |
| Less: Rates rebate | (31,169,898) | (29,061,788) |
| | 48,142,897 | 46,588,390 |

Valuations

| | | |
|-------------------------------|-----------------------|-----------------------|
| Residential | 2,406,654,000 | 2,436,289,000 |
| Commercial | 710,208,000 | 709,258,000 |
| Education and state | 2,289,484,000 | 2,286,672,000 |
| Agriculture | 1,806,753,000 | 1,807,542,000 |
| Municipal | 149,204,000 | 149,204,000 |
| Public benefit | 76,928,000 | 79,740,000 |
| Vacant land | 276,328,000 | 282,025,000 |
| Mining | 20,412,000 | 20,412,000 |
| Public Service Infrastructure | 3,014,619,000 | 3,013,064,000 |
| | 10,750,590,000 | 10,784,206,000 |

The last general valuation came into effect on 01 July 2015.

The valuation of land takes place every four years in terms of the Municipal Property Rates Act, (Act No. 6 of 2004). The basic rate for land and buildings range between R0.2634 and R2.1070 (2017 - R0.2475 and R1.9803) respectively.

The following rebates are applied: Government properties 20%, qualifying pensioners 40% or 20%, residential properties with land values of R100 000 and less 100% and Public Service Infrastructure 30%.

Messrs Umhlaba Geomatics Incorporated compiled the valuation roll which was implemented on 01 July 2015.

32. Licences and permits (non-exchange)

| | | |
|--------------|--------|-------|
| Rank permits | 26,546 | 5,025 |
|--------------|--------|-------|

33. Fines and penalties

| | | |
|------------------------------------|-------------------|-------------------|
| Law enforcement fines | 4,073 | 2,456 |
| Overdue books fines | 22,302 | 3,351 |
| Traffic fines | 49,392,657 | 35,772,875 |
| Property rates - penalties imposed | 2,900,795 | 3,711,219 |
| Disconnection fees penalties | 117,068 | 656,848 |
| Retentions forfeits | 392,254 | - |
| | 52,829,149 | 40,146,749 |

34. Government grants and subsidies

Operating grants

| | | |
|---------------------------------|--------------------|--------------------|
| Equitable share | 156,999,000 | 131,637,850 |
| District Municipality | 233,886 | 80,000 |
| National grants | 14,396,528 | 12,549,000 |
| Provincial grants and subsidies | 4,272,162 | 3,990,682 |
| | 175,901,576 | 148,257,532 |

Capital grants

| | | |
|--------------------------------|--------------------|--------------------|
| Transfers recognised - Capital | 39,333,472 | 57,024,355 |
| | 215,235,048 | 205,281,887 |

Equitable Share

| | | |
|---|---------------|---------------|
| Current year receipts | 156,999,000 | 148,417,000 |
| Conditions met - transferred to revenue | (156,999,000) | (148,417,000) |
| | - | - |

Provincial Government Grants

| | | |
|---|----------------|----------------|
| Balance unspent at beginning of year | 845,257 | 6,047,840 |
| Current year receipts | 495,987 | 661,200 |
| Conditions met - transferred to revenue | (435,162) | (5,863,783) |
| | 906,082 | 845,257 |

The municipality received various grants from the Provincial Government for operational and capital projects, such as Disaster management grant, Support to community service centre grant, Small town rehabilitation grant, LG Seta grant, Human settlements grant and Maintenance of sports facilities grant. Other than the amounts unspent, the conditions of the grants have been met. No funds were delayed during the financial year.

The amount unspent is transferred to liabilities. Refer to Note 18.

National Government Grants

| | | |
|---|--------------|--------------|
| Balance unspent at beginning of year | - | 7,398,006 |
| Returned to National Treasury | - | (7,398,006) |
| Current year receipts | 53,730,000 | 48,088,000 |
| Conditions met - transferred to revenue | (53,730,000) | (48,088,000) |
| | - | - |

The municipality received various grants from the National Government for operational and capital projects, such as the Municipal Infrastructure Grant. National grants also include the Finance management grant, EPWP grant and the Integrated National Electrification Grant. The conditions of the grants have been met. No funds were delayed during the financial year.

District Municipality

| | | |
|---|---------------|----------------|
| Balance unspent at beginning of year | 180,000 | - |
| Current year receipts | - | 260,000 |
| Conditions met - transferred to revenue | (153,886) | (80,000) |
| | 26,114 | 180,000 |

The municipality received grants from King Cetshwayo District Municipality for operational projects. Other than the amounts unspent, the conditions of the grants have been met.

The amount unspent is transferred to liabilities. Refer to Note 18.

35. Public contributions, donated and contributed PPE

| | | |
|--|-----------|---|
| Donated and contributed PPE | 298,542 | - |
| <hr/> | | |
| Donated and Contributed Property, Plant and Equipment | | |
| Current-year receipts: KZN Department of Arts and Culture | 298,542 | - |
| Conditions met - transferred to revenue | (298,542) | - |
| | - | - |

The municipality received furniture, equipment and ICT computer equipment for the libraries from the KZN Department of Arts and Culture.

36. Employee related costs

36.1 Remuneration of key management personnel:

Remuneration of the Municipal Manager

| | | |
|---|----------------|------------------|
| Annual remuneration | 223,199 | 1,241,583 |
| Performance bonus | - | 130,337 |
| Travel allowance | 60,000 | 180,000 |
| Contributions to UIF, Medical and Pension Funds | 40,771 | 1,784 |
| Group life | 4,464 | 24,831 |
| | 328,434 | 1,578,535 |

Municipal Manager - Position vacant from 01 July 2017 to 28 February 2018.

Remuneration of the Chief Financial Officer

| | | |
|---|----------------|------------------|
| Annual remuneration | 546,347 | 724,520 |
| Performance bonus | 152,749 | 142,747 |
| Travel allowance | 180,000 | 180,000 |
| Contributions to UIF, Medical and Pension Funds | 76,361 | 100,681 |
| Group life | 10,927 | 14,490 |
| | 966,384 | 1,162,438 |

Remuneration of the Director: Corporate Services

| | | |
|----------------------|----------------|------------------|
| Annual remuneration | 691,850 | 812,624 |
| Performance bonus | 139,975 | 130,817 |
| Travel allowance | 120,000 | 120,000 |
| Contributions to UIF | 1,785 | 1,784 |
| | 953,610 | 1,065,225 |

Corporate services - Director re-appointed on 01 February 2018.

Remuneration of the Director: Engineering Services

| | | |
|---|----------------|----------|
| Annual remuneration | 130,970 | - |
| Travel allowance | 45,000 | - |
| Contributions to UIF, Medical and Pension Funds | 27,439 | - |
| | 203,409 | - |

Engineering Services - Position vacant from 01 June 2016 to 31 March 2018.

Remuneration of the Director: Community Services

| | | |
|---|----------------|----------------|
| Annual remuneration | 133,867 | 657,239 |
| Performance bonus | - | 84,129 |
| Travel allowance | 45,000 | 198,000 |
| Contributions to UIF, Medical and Pension Funds | 24,542 | 1,635 |
| | 203,409 | 941,003 |

Community Services - Position vacant from 01 June 2017 to 31 March 2018.

36.2 Employee related costs:

| | | |
|-------------------------------|------------|------------|
| Basic salary and wages | 71,363,656 | 67,147,840 |
| Pension and UIF contributions | 11,793,890 | 10,809,350 |
| Medical aid contributions | 4,754,595 | 4,094,024 |
| Overtime | 4,412,426 | 4,224,471 |
| Performance bonus | 422,720 | 385,737 |
| Motor vehicle allowance | 4,092,131 | 4,660,829 |

36. Employee related costs (continued)

| | | |
|-------------------------------------|--------------------|--------------------|
| Cellphone allowance | 707,286 | 123,318 |
| Housing allowances | 484,908 | 412,106 |
| Annual leave | 2,052,899 | 2,664,740 |
| Long service awards | 641,000 | 453,664 |
| Post-retirement benefit obligations | 348,000 | 2,658,821 |
| Rental subsidy | 129,015 | - |
| Group life insurance | 1,121,765 | 985,989 |
| Staff bonuses | 5,457,527 | 2,897,774 |
| | 107,781,818 | 101,518,663 |

37. Remuneration of councillors

| | | |
|-----------------------------|-------------------|-------------------|
| Mayor's allowance | 833,113 | 774,307 |
| Deputy Mayor's allowance | 673,931 | 618,070 |
| Executive committee members | 5,073,088 | 3,801,925 |
| Speaker's allowance | 673,931 | 624,898 |
| Chief whip's allowance | 634,136 | 499,642 |
| Councillors' allowances | 12,152,807 | 11,312,864 |
| | 20,041,006 | 17,631,706 |

In-kind benefits

The Mayor, Deputy Mayor, Speaker and Chief whip are full-time. Each is provided with an office and secretarial support at the cost of the Council.

There are eight full-time Executive Committee members who have no offices and secretarial support.

The Mayor, Deputy Mayor and Speaker each have the use of leased vehicles for official duties.

The Mayor has full-time bodyguards and full-time security guards at his residences. The Deputy Mayor, Speaker and Chief whip have each got two full-time bodyguards.

38. Depreciation impairment and amortisation

| | | |
|-------------------------------|-------------------|-------------------|
| Property, plant and equipment | 50,620,310 | 41,263,952 |
| Intangible assets | 15,186 | - |
| | 50,635,496 | 41,263,952 |

39. Finance costs

| | | |
|---------------|---------|---------|
| Loans payable | 490,496 | 537,243 |
|---------------|---------|---------|

40. Bulk purchases

| | | |
|-------------|------------|------------|
| Electricity | 47,180,522 | 45,758,770 |
|-------------|------------|------------|

Bulk purchases are the cost of commodities not generated by the municipality, but which the municipality distributes to consumers. The municipality purchases electricity in bulk from Eskom and then redistributes it to consumers.

41. Other materials**Inventory consumed**

41. Other materials (continued)

| | | |
|---|------------------|------------------|
| Inventory Consumed Consumables Standard Rated (stationery and cleaning materials) | 5,696,500 | 5,492,059 |
| Inventory Consumed Finished Goods (electrical parts and hardware's used for building maintenance) | 76,677 | 91,535 |
| Inventory Consumed Materials and Supplies (asphalt hot mix, asphalt cold mix, stones, sand) | 3,645,516 | 3,569,838 |
| | 9,418,693 | 9,153,432 |

42. Contracted services**Outsourced Services**

| | | |
|--|------------|------------|
| Alien vegetation control | 450,559 | 479,200 |
| Animal care | 601,632 | 601,632 |
| Burial services | 1,124,537 | 949,892 |
| Business and advisory | 1,889,860 | 1,775,215 |
| Clearing and grass cutting services | 1,814,500 | 1,980,427 |
| Litter picking and street cleaning (CBD) | 984,960 | 571,065 |
| Medical examinations | 18,560 | 300 |
| Personnel and labour (Work creation projects and EPWP) | 5,627,566 | 4,448,376 |
| Refuse removal | 6,028,164 | 4,599,655 |
| Security services | 17,694,005 | 12,252,445 |
| Traffic fines management | 2,642,299 | 2,834,464 |
| Electrical (Rural electrification) | 7,787,198 | 7,853,192 |

Consultants and Professional Services

| | | |
|-----------------------------|-----------|-----------|
| Business and advisory | 686,795 | 984,550 |
| Infrastructure and planning | 554,845 | 762,075 |
| Legal cost | 1,686,829 | 3,532,187 |

Contractors

| | | |
|--|-------------------|-------------------|
| Artists and performers | 100,000 | 195,110 |
| Catering services | 1,199,805 | 1,817,258 |
| Graphic designers | 41,359 | - |
| Maintenance of buildings and facilities | 816,950 | 1,203,493 |
| Maintenance of equipment | 341,884 | 80,868 |
| Grader programme and maintenance of vehicles | 13,617,973 | 11,628,664 |
| Pest control and fumigation | 868 | - |
| Prepaid electricity vendors | 1,090,674 | 1,133,421 |
| Stage and sound crew | 196,230 | 306,792 |
| | 66,998,052 | 59,990,281 |

43. Transfers and subsidies

| | | |
|--|------------------|------------------|
| Early childhood - Furniture and equipment for crèches | 121,572 | 3,505 |
| Fencing of communal gardens, SMME equipment and irrigation systems | 990,861 | 436,199 |
| Donations to schools | 34,665 | 35,000 |
| S P C A Grant-in-aid | 135,000 | 130,000 |
| Tourism Grant-in-aid | 205,000 | 200,000 |
| Zululand Historical Museum Grant-in-aid | 246,000 | 403,200 |
| Bursaries (Non-employees) | 220,445 | 394,354 |
| Households (Groceries, temporally shelters and food parcels) | 1,228,095 | 1,214,743 |
| Social Welfare Grant-in-aid | 140,000 | 135,000 |
| | 3,321,638 | 2,952,001 |

44. Lease rentals on operating leases

| | | |
|---------------------------------------|------------------|------------------|
| Vehicles for political office bearers | 1,319,630 | 2,096,895 |
| Office equipment | 1,102,986 | 684,520 |
| Weigh bridges | 444,783 | 407,000 |
| Property rentals | 275,937 | 191,040 |
| | 3,143,336 | 3,379,455 |

45. General expenses

| | | |
|---|-------------------|-------------------|
| Advertising | 1,986,377 | 3,129,317 |
| Archiving | 91,712 | 67,912 |
| Audit fees - external | 2,291,853 | 1,250,120 |
| Bank charges | 348,252 | 314,582 |
| Bargaining council | 1,142,216 | 1,102,544 |
| Commission paid, third party vendors | 31,724 | 43,741 |
| Council's communications | 1,800,010 | 1,637,960 |
| Employee bursaries | 252,782 | 178,898 |
| Entertainment allowances | 125,651 | 157,916 |
| Honoraria (Voluntary workers) | 22,300 | 488,855 |
| Hire charges | 893,405 | 1,441,577 |
| Insurance | 1,167,871 | 1,547,517 |
| Indigent relief | 2,294,396 | 2,032,024 |
| Learnerships and internships | - | 179,514 |
| External computer services | 5,229,077 | 3,996,202 |
| Licences performing arts | - | 2,215 |
| Skills development fund levies | 937,064 | 931,518 |
| Printing, publications and books | 98,589 | 135,350 |
| Uniform and protective clothing | 892,263 | 842,234 |
| Professional bodies, membership and subscriptions and membership fees | 69,441 | 99,561 |
| Remuneration to ward committees | 1,810,500 | 902,250 |
| Transport provided - activities and events | 574,047 | 658,495 |
| Training | 1,436,244 | 1,786,161 |
| Travel and subsistence | 2,697,274 | 3,084,629 |
| Resettlement cost | 8,071 | - |
| Road worthy test | 3,787 | 10,113 |
| Seating allowance for Traditional Leaders | 48,000 | 48,000 |
| Loose tools | 98,467 | 59,522 |
| Vehicle tracking | 311,196 | 322,847 |
| Workmen's compensation fund | 1,237,779 | 820,427 |
| Signage | 53,345 | 61,355 |
| Municipal services - District Municipality | 2,378,990 | 1,823,448 |
| | 30,332,683 | 29,156,804 |

46. Allowance of debt impairment

| | | |
|-------------------------------|------------|------------|
| Allowance for debt impairment | 51,121,242 | 43,990,841 |
|-------------------------------|------------|------------|

47. Cash generated from operations

| | | |
|--|-------------------|-------------------|
| Surplus | 16,972,377 | 20,444,397 |
| Adjustments for: | | |
| Depreciation and amortisation | 50,635,496 | 41,263,952 |
| Loss on sale of assets and liabilities | (22,877) | (400,415) |
| Fair value adjustments | (1,622,000) | - |
| Bad debts written off | 12,434,855 | 735 |
| Movements in retirement benefit assets and liabilities | 944,000 | 2,242,000 |
| Contributions to provisions | (842,759) | 2,552,364 |
| Donated assets | 298,542 | - |
| Previous year's operating transactions | (14,802,773) | (8,354,420) |
| Non-cash flow movement | - | 742,945 |
| Contributions: Post retirement medical and long service awards | 989,000 | 6,867,064 |
| Contributions: Staff leave | 5,457,527 | 2,664,740 |
| Changes in working capital: | | |
| Inventory | (408,932) | (12,600) |
| Receivables from exchange transactions | (3,441,346) | (2,455,901) |
| Receivables from non-exchange transactions | (5,878,007) | 5,269,554 |
| Payables from exchange transactions | (505,024) | (10,149,150) |
| VAT receivable | (2,199,522) | 285,069 |
| Unspent conditional grants and receipts | (93,061) | (19,073,717) |
| Consumer deposits | 342,966 | 184,155 |
| VAT payable | 1,978,247 | 6,978,457 |
| | 60,236,709 | 49,049,229 |

48. Retirement benefits

The municipality's personnel are members of one of the three Natal Joint Municipal Pension Funds i.e. (Superannuation, Provident and Retirement). The valuator carries out a statutory valuation on a tri-annual basis and an interim valuation on an annual basis.

The following valuations have been carried out:

Superannuation fund - interim on annual basis

Provident fund - interim on annual basis

Retirement fund - interim on annual basis

48.1 Superannuation

An Interim Actuarial Valuation of the fund was carried out for the period ending 31 March 2017 (31/03/2016).

48. Retirement benefits (continued)

| For service to 31 March 2017 | Pensioners | Members | Total |
|------------------------------|-----------------------|-----------------------|-----------------------|
| Assets | 5,245,567,000 | 5,808,471,000 | 11,054,038,000 |
| Liabilities | 5,245,567,000 | 5,808,471,000 | 11,054,038,000 |
| | 10,491,134,000 | 11,616,942,000 | 22,108,076,000 |

Pensioners: Funding level - 105.8%

Members: Funding level - 100%

| For services to 31 March 2016 | Pensioners | Members | Total |
|-------------------------------|-----------------------|-----------------------|-----------------------|
| Assets | 5,074,120,000 | 5,431,090,000 | 10,505,210,000 |
| Liabilities | 5,074,120,000 | 5,431,090,000 | 10,505,210,000 |
| | 10,148,240,000 | 10,862,180,000 | 21,010,420,000 |

Pensioners: Funding level - 125.9%

Members: Funding level - 103.3%

| | |
|---------------------------|---------------|
| Investment reserve | 31 March 2017 |
| Contribution reserve | 21,221,000 |

| | |
|---------------------------|---------------|
| Investment reserve | 31 March 2016 |
| Contribution reserve | 71,475,000 |

Conclusion

1. The valuation reveals that the total Fund is 100% funded as at the valuation date at the overall level. The pensioner liabilities are fully funded and the liabilities in respect of active members are 100% funded.

2. The surcharge of 9.5% will continue to be paid for 8 years in terms of the "Scheme to Eliminate Deficiency", which was implemented from 1 August 2012, to eliminate the shortfall and then to build up sufficient solvency reserves.

3. It is necessary to retain the Contribution Reserve to hold assets equal to the expected shortfall, which was 0.81% of pensionable salaries at the valuation date.

48.2 Provident Fund

The salient features of the Statutory Actuarial Valuation Report on the fund as at 31 March 2017 (31/03/2016) were that the net market value of the fund's assets were not sufficient to fully cover the members' share account share account and to provide total reserves of R3 368 539 000 (2016 - R2 864 167 000).

The liabilities of the fund did not exceed the assets, resulting in a small surplus (or unallocated assets) of R117 724 000 (2016 - R152 765 000) which represents 3.5% (2016 - 5.3%) of liabilities and reserves.

The bonuses declared subsequent to the valuation date have been greater than the investment earnings over that period, and the shortfall has been met from the unallocated assets.

Conclusion

1) The actuary do not recommend that any final bonus be declared at the valuation date.

2) The Fund self-insures its death benefits and disability benefits.

3) The actuary is satisfied that the asset composition on the valuation date is appropriate.

4) Members are able to choose a rate of contribution between 5% and 9.25% of pensionable salaries.

48. Retirement benefits (continued)

48.3 Retirement Fund

The salient features of the Statutory Actuarial Valuation Report on the fund as at 31 March 2017 were:

The actuarial value of total assets of the fund was less than the actuarial value of the liabilities for the service of pensioners and members to that date by R190 385 000 107.2 (2017 - R244 870 000).

Made up as follows:

For service to 31 March 2017:

for pensioners - funding level 107.2% (2016 : funding level 125.3%)

for members - funding level 88.8% (2016 : funding level 85.9%) - deficit of R190 385 000 (2017 - R244 870 000)

The fund did not hold an investment reserve.

With effect from 01 July 2000, local authorities commenced paying a surcharge equal to 2% of pensionable salaries. It was subsequently increased each year and is currently (31/03/2017), for local authorities 20% (2016 - 20%), and members pay 1.65% (2016 - 1.65%).

The previous statutory valuation as at 31 March 2016 showed a deficit in the Fund. The employers and members are paying a surcharge of 21.65% of pensionable salaries (for all active members at 31 December 2002), which was expected to fund the deficit over a eight year period to 31 July 2020.

Even though a surcharge was paid during the valuation period, the funding level has not increased by as much as was expected. This is primarily as a result of high salary increases over the valuation period and a strengthening of the valuation basis

Conclusion

1) The Fund is 95.3% funded as at the valuation date (2016 - 93.8%) at the overall level. The pensioner liabilities are fully funded and the liabilities in respect of active members are 88.8% (2016 - 85.9%) funded. The financial position of Fund has thus improved since the previous valuation date

2) The actuary recommend that the surcharge continue to be paid in terms of the "Scheme to Eliminate Deficiency" to firstly eliminate the short fall and then build up sufficient solvency reserves.

3) The Fund self-insures its risks benefits.

48.4 Municipal Councillors' Pension Fund

The Municipal Councillors' Pension Fund operates as a defined contribution fund. The contributions paid by the members (13,75%) and council (15%) is sufficient to fund the benefits accruing from the fund in the future. The last valuation performed for the year ended 30 June 2012 revealed that the fund had an funding level of 99.5% (2009 - 102.0%).

49. Capital commitments

Authorised capital expenditure

Approved and contracted for

| | | |
|------------------|------------------|------------------|
| • Infrastructure | 6,047,754 | 7,814,379 |
| • Community | 444,062 | - |
| • Other | 33,195 | - |
| | 6,525,011 | 7,814,379 |

Approved and not contracted for

| | | |
|------------------|------------------|------------------|
| • Infrastructure | 1,193,910 | 3,007,232 |
| • Community | 465,235 | 527,765 |
| • Other | 3,213,121 | 171,884 |
| | 4,872,266 | 3,706,881 |

Total capital commitments

| | | |
|---------------------------------|-------------------|-------------------|
| Approved and contracted for | 6,525,011 | 7,814,379 |
| Approved and not contracted for | 4,872,266 | 3,706,881 |
| | 11,397,277 | 11,521,260 |

This expenditure will be funded as follows:

| | | |
|-------------------|-------------------|-------------------|
| Own resources | 4,905,461 | 3,706,880 |
| Government grants | 6,491,816 | 7,814,380 |
| | 11,397,277 | 11,521,260 |

Operating leases

The Municipality as the lessee:

| | | |
|-----------------------------------|------------------|------------------|
| • In the year ending 30 June 2018 | - | 1,421,924 |
| • In the year ending 30 June 2019 | 1,753,088 | 958,726 |
| • In the year ending 30 June 2020 | 1,846,973 | 1,035,424 |
| • In the year ending 30 June 2021 | 831,312 | - |
| | 4,431,373 | 3,416,074 |

Total operational commitments

| | | |
|--------------------------------|-----------|-----------|
| The Municipality as the lessee | 4,431,373 | 3,416,074 |
|--------------------------------|-----------|-----------|

The municipality has concluded operating lease agreements with suppliers (for office equipment, weigh bridges and leasing of vehicles for political office bearers), which are required to be paid in installments.

Total commitments

Total commitments

| | | |
|------------------------------------|-------------------|-------------------|
| Authorised capital expenditure | 11,397,277 | 11,521,260 |
| Authorised operational expenditure | 4,431,373 | 3,416,074 |
| | 15,828,650 | 14,937,334 |

50. Additional disclosure in terms of the Municipal Finance Management Act**Contributions to organised local government**

| | | |
|---------------------------------|-------------|-------------|
| Current year subscription / fee | 1,102,756 | 1,068,091 |
| Bargaining council | 39,468 | 34,452 |
| Amount paid | (1,142,224) | (1,102,543) |
| | - | - |

Audit fees

| | | |
|----------------------------|-------------|-------------|
| Current year audit fees | 2,590,822 | 1,553,462 |
| Amount paid - current year | (2,590,822) | (1,553,462) |
| | - | - |

PAYE and UIF

| | | |
|---------------------------------|--------------|--------------|
| Current year payroll deductions | 17,154,863 | 14,464,123 |
| Amount paid - current year | (17,154,863) | (14,464,123) |
| | - | - |

Pension and Medical Aid Deductions

| | | |
|---|--------------|--------------|
| Current year payroll deductions and Council contributions | 25,115,134 | 22,059,143 |
| Amount paid - current year | (25,115,134) | (22,059,143) |
| | - | - |

Value added tax

| | | |
|-------------------------|------------------|------------------|
| VAT Receivable (Note 5) | 5,637,579 | 3,438,057 |
| VAT Payable (Note 17) | (3,040,252) | (1,062,005) |
| | 2,597,327 | 2,376,052 |

VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtors.

50. Additional disclosure in terms of the Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2018:

| 30 June 2018 | Outstanding less than 90 days R | Outstanding more than 90 days R | Total R |
|---------------------|--|--|--------------------|
| M L Govindsamy | 1,242 | 5,979 | 7,221 |
| S S Ntsele | 1,858 | 52,400 | 54,258 |
| | 3,100 | 58,379 | 61,479 |

| 30 June 2017 | Outstanding less than 90 days R | Outstanding more than 90 days R | Total R |
|---------------------|--|--|--------------------|
| M L Govindsamy | 608 | 1,787 | 2,395 |
| S S Ntsele | 681 | 25,088 | 25,769 |
| | 1,289 | 26,875 | 28,164 |

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

| 30 June 2018 | Highest outstanding amount | Aging (in days) |
|---------------------|---|----------------------------|
| M L Govindsamy | 5,979 | 120 |
| S S Ntsele | 52,400 | 120 |
| | 58,379 | 240 |

| 30 June 2017 | Highest outstanding amount | Aging (in days) |
|---------------------|---|----------------------------|
| M L Govindsamy | 1,787 | 120 |
| S S Ntsele | 25,088 | 120 |
| | 26,875 | 240 |

50. Additional disclosure in terms of the Municipal Finance Management Act (continued)

Deviation from supply chain management

The following deviations and ratifications of minor breaches of procurement processes were reported to Council in terms of Section 36(2) of the Supply Chain Management Policy:

| Closed quotations/ tenders: (July 2017 to June 2018) | R0 - R20 000 | R20 001 - R50 000 | R50 001 - R100 000 | R100 001 - R200 000 | R200 001 and above | Total |
|---|---------------------|--------------------------|---------------------------|----------------------------|---------------------------|------------------|
| July | 28,132 | 72,839 | - | 123,120 | - | 224,091 |
| August | 68,347 | 44,598 | - | - | 1,835,860 | 1,948,805 |
| September | 34,491 | 101,952 | 78,743 | 182,081 | 322,506 | 719,773 |
| October | - | - | 70,564 | - | 1,236,487 | 1,307,051 |
| November | 8,144 | - | - | 162,849 | - | 170,993 |
| December | 16,771 | - | - | - | - | 16,771 |
| January | 59,146 | 43,890 | - | - | - | 103,036 |
| February | 15,436 | - | 86,319 | - | - | 101,755 |
| March | 20,963 | 20,406 | 50,568 | - | - | 91,937 |
| April | 9,071 | - | 71,221 | - | - | 80,292 |
| May | 21,930 | 41,005 | - | - | - | 62,935 |
| June | 8,982 | 60,256 | - | - | - | 69,238 |
| Subtotal | 291,413 | 384,946 | 357,415 | 468,050 | 3,394,853 | 4,896,677 |
| | 291,413 | 384,946 | 357,415 | 468,050 | 3,394,853 | 4,896,677 |

| Closed quotations/ tenders: (July 2016 to June 2017) | R0 - R20 000 | R20 001 - R50 000 | R50 001 - R100 000 | R100 001 - R200 000 | R200 001 and above | Total |
|---|---------------------|--------------------------|---------------------------|----------------------------|---------------------------|-------------------|
| July | 53,614 | - | - | - | - | 53,614 |
| August | - | 48,473 | 92,722 | - | - | 141,195 |
| September | 44,544 | - | - | - | - | 44,544 |
| October | 14,334 | 88,455 | 58,036 | - | - | 160,825 |
| November | 29,834 | 28,308 | 75,992 | - | 471,326 | 605,460 |
| December | 10,473 | - | - | - | 2,373,693 | 2,384,166 |
| January | 96,172 | 39,000 | - | - | - | 135,172 |
| February | 65,701 | 25,435 | 62,128 | - | - | 153,264 |
| March | 16,799 | 23,225 | - | - | - | 40,024 |
| April | 35,318 | - | 99,644 | - | 11,710,349 | 11,845,311 |
| May | 43,210 | 181,597 | 161,310 | - | - | 386,117 |
| June | 81,934 | 63,745 | - | 173,700 | - | 319,379 |
| Subtotal | 491,933 | 498,238 | 549,832 | 173,700 | 14,555,368 | 16,269,071 |
| | 491,933 | 498,238 | 549,832 | 173,700 | 14,555,368 | 16,269,071 |

51. Unauthorised expenditure

| | | |
|--|-------------------|--------------|
| Opening balance | 4,145 | 11,219,547 |
| Approved as valid expenditure (Council Min No. 39/16/17) | - | (11,215,402) |
| Add: Unauthorised expenditure - current year | 14,825,445 | - |
| | 14,829,590 | 4,145 |

Details of unauthorised expenditure - current year

| | | |
|--|-------------------|----------|
| Community and social services - Asset depreciation | 2,045,979 | - |
| Road transport - Asset depreciation | 12,779,466 | - |
| | 14,825,445 | - |

52. Irregular expenditure

| | | |
|---|----------------|-------------------|
| Opening balance | 34,688,592 | 33,841,490 |
| Add: Irregular expenditure - 2016/2017 | - | 7,866,021 |
| Less: Amounts condoned - 2016/2017 | - | (7,018,919) |
| Less: Amounts condoned - 2017/2018 (Special Council Meeting - 31 July 2018) | (33,841,491) | - |
| Less: Dolphin Cost Waste Management - It was incorrectly declared irregular as it was an extension of scope and complied with MFMA Circular 62. | (329,271) | - |
| Less: Amounts condoned - (Council Meeting - 12 December 2017) | (140,490) | - |
| Add: Irregular expenditure - current year | 2,049,423 | - |
| Less: Amounts condoned - 2017/2018 (Special Council Meeting - 31 July 2018) | (1,879,620) | - |
| | 547,143 | 34,688,592 |

Details of irregular expenditure – current year

| | |
|--|------------------|
| Cash-in-Transit Security (October 2017 to February 2018) | 169,803 |
| Appointment of consultants for MIG Projects | 1,879,620 |
| | 2,049,423 |

53. Fruitless and wasteful expenditure

| | | |
|--|------------------|---------------|
| Opening balance | 22,634 | 19,194 |
| Add: Fruitless and wasteful expenditure - current year | 1,802,099 | 1,463,172 |
| Less: Amounts condoned | - | (1,454,385) |
| Less: Amounts transferred to receivables | (17,285) | (747) |
| Less: Amount recovered from official | - | (4,600) |
| | 1,807,448 | 22,634 |

Details of fruitless and wasteful expenditure - current year

| | | |
|--|------------------|----------|
| Unfair dismissal of Mr S M Matenjwa (LED Officer) - Re-instated from 08 February 2013. | 1,783,081 | - |
| Traffic fines admin fees - Hired official vehicles for Office Bearers | 19,018 | - |
| | 1,802,099 | - |

Refer to Note 4 for fruitless and wasteful expenditure receivables.

54. Related parties

Parties are considered to be related if:

- 1) One party has the ability to control the other party, or
- 2) Exercise significant influence over the other party in making financial and operating decisions.

The following are awards above R2 000 made to close family members of people in the service of the state:

| | | |
|---|--------|--------|
| Nkiza Business cc (Catering services) - The owner of the business is the wife of Councillor W P Mzimela | 40,525 | 40,950 |
|---|--------|--------|

55. Electricity losses

| | | |
|--|------------------|------------------|
| Purchase of electricity (kilowatt hours) | 52,718,038 | 50,320,324 |
| Sale of electricity (kilowatt hours) | (46,046,494) | (44,393,447) |
| | 6,671,544 | 5,926,877 |

Percentage loss 12.66% (2017 - 11.78%)

The national norm for the electricity losses is 5% to 10% (National Treasury Circular No. 71).

| | | |
|---|-----------|-----------|
| Rand value of electricity losses (6 671 544 kwh x 1.47) | 9,807,170 | 8,593,973 |
|---|-----------|-----------|

Electricity losses are caused by the following:

- 1) Street lights consumptions that are not metered
- 2) Tampering with electricity installations
- 3) Other technical losses contributes up to 5.5% of the total of electricity losses, such as substation equipment losses, transmission lines losses, MV and LV cable network losses, electricity meters, MV and LV ring main units losses, minisubs losses and transformers losses.

56. Contingent liabilities

Contingent liabilities as at 30 June 2017:

R Mall v uMlalazi Municipality (Ref: BU000). Claim arising from the alleged removal of certain structures on the Remainder of Erf 436, Eshowe to the amount of R50 000.

The Nigel Williamson Trust v uMlalazi Municipality (Ref: BU001). Claim arising from a property rates dispute on Erf 331, Mtunzini to the amount of R20 000.

SM Mathenjwa v uMlalazi Municipality. Claim arising from the possible unlawful dismissal of the Local Economic Development Officer in 2013 to the amount of R305 516.

Ighora Construction v uMlalazi Municipality. Claim arising from the termination of road construction contract at the King Dinuzulu Suburb to the amount of R10 754 222.

Sibgem v uMlalazi Municipality. Claim arising from the termination of Project Management Unit Services contract to the amount of R702 240.

Mgamule Consulting v uMlalazi Municipality. Claim arising from breach of consulting contract for the Kwabulawayo Sports field to the amount of R1 002 251.

Contingent liability as at 30 June 2018:

At the time of completing the Annual Financial Statements, no information was received from attorneys for possible claims against the municipality.

57. Financial risk management

Risk and exposure are disclosed as follows:

57. Financial risk management (continued)

Credit risk exposure

| | | |
|---|------------|------------|
| Cash and cash equivalents - maximum risk exposure | 99,770,809 | 86,122,738 |
|---|------------|------------|

Note 1: The risk relating to short term deposits is minimised due to the nature of the municipal finance structure.

Note 2: The risk relating to cash and cash equivalents is minimised as the municipality only deposits cash with major banks with high quality credit standing.

Liquidity risk

| | | |
|---|-------------------|-------------------|
| Consumer deposits | 2,327,720 | 1,984,754 |
| Payables from exchange transactions | 34,260,469 | 34,765,493 |
| VAT payable | 3,040,252 | 1,062,005 |
| Unspent conditional grants and receipts | 932,196 | 1,025,257 |
| Loans payable | 342,816 | 342,816 |
| Employee benefits | 9,245,778 | 10,088,537 |
| | 50,149,231 | 49,268,862 |

| | | |
|----------------|-------------|-------------|
| Current assets | 137,615,793 | 112,046,871 |
|----------------|-------------|-------------|

| | | |
|---------------------|------------|------------|
| Current liabilities | 50,149,231 | 49,268,862 |
|---------------------|------------|------------|

Current assets as a percentage of current liabilities: 247% (2017- 227%)

Current assets to current liabilities ratio: 2.7:1 (2017 - 2.3:1)

The generally accepted norm for this ratio is 1.5:1. The higher the ratio, the more liquid the municipality, and the better chances of meeting short term debt with short term liquid resources.

58. Restatement of comparative figures

Certain comparative figures have been restated.

58. Restatement of comparative figures (continued)

58.1 Statement of Financial Position

| | |
|--|----------------------|
| Current assets as at 30 June 2017 | - 112,511,523 |
| Deposits with creditors - Moved from loans receivable (Refer note 14) | - 739,165 |
| Payments made in advance - Moved from non-exchange receivables (Refer note 4) | - 338,668 |
| Accrued income - Moved from non-exchange receivables (Refer note 4) | - 1,046,211 |
| Salary control - Moved from payables from exchange transactions (Refer note 16) | - (10,437) |
| Salary control - Moved from payables from exchange transactions(Refer note 16) | - (6,804) |
| Survey control - Moved to accumulated surplus (Refer note 23) | - (1,209,209) |
| Payments made in advance - Moved to exchange receivables (Refer note 3) | - (338,668) |
| Accrued income - Moved to exchange receivables (Refer note 3) | - (1,046,211) |
| Fruitless and wasteful expenditure - Moved from Accumulated Surplus (Refer note 4) | - 22,634 |
| | - 112,046,872 |

| | |
|---|----------------------|
| Non-Current assets as at 30 June 2017 | - 833,602,790 |
| Deposits with creditors - Moved to receivables from exchange transactions (Refer to note 3) | - (739,165) |
| | - 832,863,625 |

| | |
|--|---------------------|
| Current liabilities as at 30 June 2017 | - 54,882,734 |
| Deposits other - Moved from payables from exchange transactions (Refer to note 3) | - 73,297 |
| Overs and unders - Moved to receivables from exchange transactions (Refer note 3) | - (12,910) |
| Salary control - Moved to receivables from exchange transactions (Refer to note 3) | - (4,331) |
| Deposits other - Moved to receivables from exchange transactions (Refer to note 3) | - (73,299) |
| Accrued staff leave - Moved to employee benefits (Refer to note 19) | - (5,270,748) |
| Employee overtime/ standby - Moved from employee benefits (Refer to note 16) | - 410,207 |
| Unspent donations and public contributions - Moved to Accumulated Surplus (Refer to note 23) | - (5,586,011) |
| Adjust current portion of loans payable (Refer to note 20) | - (10,617) |
| Accrued staff leave - Moved from payables from exchange transactions (Refer to note 16) | - 5,270,748 |
| Employee overtime/ standby - Moved to payables from exchange transactions (Refer to note 19) | - (410,207) |
| | - 49,268,863 |

| | |
|--|---------------------|
| Non-current liabilities as at 30 June 2017 | - 21,677,759 |
| Adjust current portion of loans payable (Refer to note 20) | - 10,617 |
| | - 21,688,376 |

| | |
|---|----------------------|
| Accumulated surplus as at 30 June 2017 | - 859,837,228 |
| Fruitless and wasteful expenditure - Moved to receivables from non-exchange transactions (Refer to note 23) | - 1,448,616 |
| Fruitless and wasteful expenditure - Moved to receivables from non-exchange transactions - Write off (refer to note 23) | - (1,425,982) |
| Survey control - Moved from receivables from exchange transactions (Refer to note 23) | - (1,209,208) |
| Unspent donations and public contributions - Moved from unspent grants (Refer to note 23) | - 5,586,011 |
| | - 864,236,665 |

58.2 Statement of Financial Performance

| | |
|--|---------------------|
| Surplus for the year as at 30 June 2017 | - 11,981,915 |
| Fruitless and wasteful expenditure - Moved to receivables from non-exchange transactions | - 1,448,616 |
| Contribution to Capital Replacement Reserve - Moved to Accumulated Surplus | - 7,013,866 |
| | - 20,444,397 |

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2018

Notes to the Financial Statements

| Figures in Rand | 2018 | 2017 |
|-----------------|------|------|
|-----------------|------|------|

58. Restatement of comparative figures (continued)

Certain comparative amounts on the Statement of Financial Performance have been reclassified due to the implementation of the Municipal Standard Chart of Accounts (mSCOA).

UMLALAZI MUNICIPALITY
Appendix A

Schedule of external loans as at 30 June 2018

| | Balance at 30 June 2017 | Received during the period | Redeemed written off during the period | Balance at 30 June 2018 | | |
|---|-------------------------------|----------------------------------|---|-------------------------------|----------|----------|
| | Rand | Rand | Rand | Rand | Rand | Rand |
| Loan Stock | - | - | - | - | - | - |
| Structured loans | - | - | - | - | - | - |
| Funding facility | - | - | - | - | - | - |
| Development Bank of South Africa | | | | | | |
| | 4,241,192 | - | 342,816 | 3,898,376 | - | - |
| | - | - | - | - | - | - |
| | - | - | - | - | - | - |
| | - | - | - | - | - | - |
| | - | - | - | - | - | - |
| | 4,241,192 | - | 342,816 | 3,898,376 | - | - |
| Bonds | - | - | - | - | - | - |
| Other loans | - | - | - | - | - | - |
| Lease liability | - | - | - | - | - | - |
| Annuity loans | - | - | - | - | - | - |
| Government loans | - | - | - | - | - | - |
| Total external loans | 4,241,192 | - | 342,816 | 3,898,376 | - | - |

UMLALAZI MUNICIPALITY

Appendix B

Analysis of Property Plant and Equipment for the Year Ended 30 June 2018

| | Opening Balance | Additions infrastructure | AUC released | Additions | Revaluation | Cost / Revaluation Donated assets | Disposals | Closing Balance | Opening Balance | Accumulated Additions | Depreciation Disposals | Closing Balance | Accumulated Impairment Opening Balance | Additions | Disposals | Closing Balance | Carrying Value | Carrying Value |
|--|--------------------|-----------------------------|-----------------|-----------|-------------|---|------------|--------------------|--------------------|--------------------------|---------------------------|--------------------|--|------------|---------------|--------------------|-------------------|-------------------|
| | 30/06/2017 | 2017/2018 | 2017/2018 | 2017/2018 | 2017/2018 | 2017/2018 | 2017/2018 | 2017/2018 | 30/06/2017 | 2017/2018 | 2017/2018 | 2017/2018 | 30/06/2017 | 2017/2018 | 2017/2018 | 2017/2018 | 2017/2018 | 30/06/2017 |
| | R | R | | R | R | R | R | R | R | R | R | R | | R | R | R | R | R |
| Land | 129 664 164.00 | - | - | - | - | - | -78 000 | 129 586 164.00 | - | - | - | - | - | - | - | - | 129 586 164.00 | 129 664 164 |
| Community assets | 292 254 310.00 | - | 35 638 532 | 415 960 | - | - | -619 052 | 327 689 750.00 | -84 972 454 | -16 159 334.00 | 444 923 | -100 686 865 | -5 514 153 | -25 476 | 14 634 | -5 524 995.00 | 221 477 890.00 | 201 767 704 |
| Vehicles | 27 561 248.00 | - | - | 1 381 429 | - | - | -478 985 | 28 463 692.00 | -13 433 151 | -4 440 422.03 | 369 451 | -17 504 122 | -91 828 | - | 11 204 | -80 624.00 | 10 878 945.97 | 14 036 269 |
| Roads | 452 954 570.00 | - | 46 816 051 | - | - | - | -13 810 | 499 756 809.36 | -161 023 922 | -18 093 137.77 | 12 871 | -179 104 188 | -1 855 391 | -2 877 717 | - | -4 733 108.19 | 315 919 512.40 | 290 075 256 |
| Bridges: Vehicles | 6 273 576.17 | - | - | - | - | - | - | 6 273 576.17 | -1 557 961 | -257 603.00 | - | -1 815 564 | -43 615 | - | - | -43 615.00 | 4 414 397.17 | 4 672 000 |
| Bridges: Pedestrian | 156 242.97 | - | - | - | - | - | - | 156 242.97 | -8 786 | -5 290.00 | - | -14 076 | - | - | - | - | 206 412.68 | 147 457 |
| Roads: Asphalt surface | 81 660 070.00 | - | 25 657 685 | - | - | - | - | 107 317 755.00 | -16 339 094 | -4 084 155.77 | - | -20 423 250 | -809 666 | - | - | -809 666.00 | 86 084 839.23 | 64 511 310 |
| Roads: Asphalt basis/structure | 133 651 211.00 | - | - | - | - | - | - | 133 651 211.00 | -63 599 090 | -3 642 443.00 | - | -67 241 533 | -263 254 | - | - | -263 254.00 | 66 146 424.00 | 69 788 867 |
| Roads: Gravel surface | 19 140 321.00 | - | 6 035 744 | - | - | - | - | 25 176 065.00 | -7 464 983 | -5 249 490.00 | - | -12 714 473 | - | -2 877 717 | -2 877 717.00 | 9 583 875.00 | 11 675 338 | |
| Roads: Earthworks | 86 255 624.00 | - | 12 605 612 | - | - | - | - | 98 861 236.00 | -44 160 173 | -2 894 575.00 | - | -47 054 748 | - | - | - | 51 806 488.00 | 42 095 451 | |
| Roads: Kerb and channels | 35 202 117.00 | - | - | - | - | - | - | 35 202 117.00 | -21 513 672 | -1 003 190.00 | - | -22 516 862 | -177 834 | - | - | -177 834.00 | 12 507 421.00 | 13 510 611 |
| Roads: Pedestrian footpaths | 4 882 719.00 | - | - | - | - | - | - | 4 882 719.00 | -1 456 800 | -165 881.00 | - | -1 622 681 | -557 075 | - | - | -557 075.00 | 2 702 963.00 | 2 868 844 |
| Roads: Street lighting | 3 583 874.82 | - | - | - | - | - | - | 3 583 874.82 | -1 288 655 | -119 655.00 | - | -1 408 310 | -458 | - | - | -457.57 | 2 175 107.25 | 2 234 762 |
| Causeways | 10 340 703.61 | - | 1 656 352 | - | - | - | - | 11 997 055.61 | -2 904 388 | -553 117.00 | - | -3 457 505 | - | - | - | 8 539 550.61 | 7 436 316 | |
| Roads: Traffic lights | 469 019.82 | - | - | - | - | - | - | 469 019.82 | -158 391 | -20 563.90 | - | -178 954 | - | - | - | 290 065.82 | 310 629 | |
| Roads: Traffic signs | 13 809.65 | - | 767 648 | - | - | - | -13 810 | 767 647.65 | -12 610 | -36 383.00 | 12 871 | -36 122 | - | - | - | 731 525.65 | 1 200 | |
| Road calming measures | 781 087.65 | - | - | - | - | - | - | 781 087.65 | -432 030 | -22 799.00 | - | -454 829 | - | - | - | 326 258.65 | 349 058 | |
| Land - Road reserve | 69 502 362.96 | - | - | - | - | - | - | 69 502 362.96 | - | - | - | - | - | - | - | 69 502 362.96 | 69 502 363 | |
| Speed humps | 1 041 829.00 | - | 28 763 | - | - | - | - | 1 070 592.00 | -127 288 | -37 993.00 | - | -165 281 | -3 490 | - | - | -3 489.62 | 901 821.38 | 911 051 |
| Storm water | 93 554 335.00 | - | 6 458 928 | - | - | - | - | 100 013 263.00 | -51 587 076 | -2 939 625.00 | - | -54 526 701 | -1 469 577 | - | - | -1 469 576.68 | 44 016 985.76 | 40 497 683 |
| Kerb inlets | 8 458 706.00 | - | - | - | - | - | - | 8 458 706.00 | -5 789 339 | -207 026.00 | - | -5 996 365 | -12 030 | - | - | -12 030.32 | 2 450 310.68 | 2 657 337 |
| Masonry structures | 4 521 561.00 | - | - | - | - | - | - | 4 521 561.00 | -1 882 778 | -184 763.00 | - | -2 067 541 | -14 664 | - | - | -14 663.52 | 2 439 356.48 | 2 624 119 |
| Pipes | 31 839 679.87 | - | - | - | - | - | - | 31 839 679.87 | -20 541 712 | -685 420.00 | - | -21 227 132 | -128 | - | - | -127.61 | 10 612 420.26 | 11 297 840 |
| RC Structures | 9 519 242.57 | - | - | - | - | - | - | 9 519 242.57 | -6 232 116 | -377 639.00 | - | -6 609 755 | -92 835 | - | - | -92 834.61 | 2 816 652.96 | 3 194 292 |
| Channels | 39 215 146.00 | - | 6 458 928 | - | - | - | - | 45 674 074.00 | -17 141 131 | -1 484 777.00 | - | -18 625 908 | -1 349 921 | - | - | -1 349 920.62 | 25 698 245.38 | 20 724 094 |
| Electrical | 68 236 321.00 | - | - | 1 275 890 | - | - | -625 578 | 68 886 633.84 | -23 789 030 | -2 497 599.00 | 277 327 | -26 009 302 | -1 363 411 | - | - | -1 363 411.46 | 41 513 920.38 | 43 083 880 |
| Transformers | 7 588 161.36 | - | - | - | - | - | - | 7 588 161.36 | -2 963 749 | -404 654.00 | - | -3 368 403 | -82 180 | - | - | -82 179.89 | 4 137 578.47 | 4 542 232 |
| Prepaid electricity meters | 254 632.42 | - | - | - | - | - | -254 632 | - | -149 253 | -7 930.00 | 157 183 | - | - | - | - | - | - | 105 379 |
| Cables | 15 609 643.00 | - | - | 357 326 | - | - | - | 15 966 969.00 | -7 769 092 | -525 662.00 | - | -8 294 754 | - | - | - | - | 7 672 215.00 | 7 840 551 |
| Substation switchgear | 25 084 206.74 | - | - | 411 474 | - | - | - | 25 495 680.74 | -7 208 327 | -853 383.00 | - | -8 061 710 | -920 483 | - | - | -920 483.45 | 16 513 487.29 | 16 955 396 |
| Perimeter protection | 218 592.00 | - | - | - | - | - | - | 218 592.00 | -158 377 | -12 693.00 | - | -171 070 | - | - | - | - | 47 522.00 | 60 215 |
| Substation | 3 056 850.96 | - | - | 507 090 | - | - | - | 3 563 940.96 | -967 056 | -128 402.00 | - | -1 095 458 | -117 814 | - | - | -117 814.44 | 2 350 668.52 | 1 971 981 |
| Ring main unit | 2 101 779.00 | - | - | - | - | - | - | 2 101 779.00 | -394 041 | -70 285.00 | - | -464 326 | -69 245 | - | - | -69 244.93 | 1 568 208.07 | 1 638 493 |
| Mini sub stations | 14 322 455.78 | - | - | - | - | - | -370 946 | 13 951 509.78 | -4 179 135 | -494 590.00 | 120 144 | -4 553 581 | -173 689 | - | - | -173 688.75 | 9 224 240.03 | 9 969 632 |
| Furniture and equipment | 7 521 174.00 | - | - | 869 615 | - | 202 509 | -864 126 | 7 729 174.00 | -4 402 536 | -939 060.00 | 762 989 | -4 578 607 | -148 618 | - | 12 314 | -136 304.00 | 3 014 266.00 | 2 970 023 |
| Computer equipment | 10 592 034.00 | - | - | 1 534 685 | - | 96 032 | -621 272 | 11 601 479.00 | -3 286 154 | -1 558 049.00 | 451 571 | -4 392 632 | -43 534 | - | 21 866 | -21 668.00 | 7 187 179.00 | 7 262 347 |
| Machinery and equipment | 7 853 543.00 | - | - | 771 966 | - | - | -2 029 513 | 6 595 996.00 | -4 904 275 | -873 738.00 | 1 813 629 | -3 964 381 | -18 694 | - | 2 560 | -16 134.00 | 2 615 481.00 | 2 930 575 |
| Assets under construction(Note 8) | 72 570 459.00 | 39 879 637 | -88 913 511 | - | - | - | - | 23 536 584.59 | - | - | - | - | - | - | - | - | 23 536 584.59 | 72 570 459 |
| Property, plant and equipment (Note 7) | 1 162 762 157.00 | 39 879 637 | - | 6 249 545 | - | 298 541 | -5 330 336 | 1 203 859 545.79 | -347 398 598 | -47 500 964.80 | 4 132 761 | -390 766 798 | -10 505 206 | -2 903 193 | 62 578 | -13 345 821.33 | 799 746 925.10 | 804 858 355 |
| Heritage assets (Note 12) | 10 311 344.12 | - | - | - | - | - | - | 10 311 344.12 | - | - | - | - | - | - | - | - | 10 311 344.12 | 10 311 344 |
| Investment properties (Note 11) | 16 257 000.00 | - | - | - | 1 622 000 | - | - | 17 879 000.00 | - | - | - | - | - | - | - | - | 17 879 000.00 | 16 257 000 |
| Intangible assets (Note 10) | 2 293 959.00 | - | - | 111 377 | - | - | -1 204 518 | 1 200 818.00 | -1 494 892 | -376 668.00 | 1 152 320 | -719 240 | - | - | - | - | 481 578.00 | 799 067 |
| | 1 191 624 460.12 | 39 879 637 | - | 6 360 922 | 1 622 000 | 298 541 | -6 534 854 | 1 233 250 707.91 | -348 893 490 | -47 877 632.80 | 5 285 081 | -391 486 038 | -10 505 206 | -2 903 193 | 62 578 | -13 345 821.33 | 828 418 847.22 | 832 225 766 |

UMLALAZI MUNICIPALITY
Appendix C

Segmental Statement of Financial Performance

| | 2018 Actual Income R | 2018 Actual Expenditure R | 2018 (Surplus)/Deficit R | 2017 Actual Income R | 2017 Actual Expenditure R | 2017 (Surplus)/Deficit R |
|-------------------------------|----------------------------|---------------------------------|--------------------------------|----------------------------|---------------------------------|--------------------------------|
| Executive and council | 196 724 726 | 73 343 856 | 123 380 869 | 141 363 571 | 93 500 162 | 47 863 409 |
| Finance and administration | 60 921 779 | 43 791 328 | 17 130 451 | 60 816 477 | 48 747 382 | 12 069 094 |
| Internal audit | - | 2 310 252 | -2 310 252 | - | 303 342 | -303 342 |
| Community and social services | 4 535 306 | 17 735 089 | -13 199 783 | 6 016 217 | 9 108 909 | -3 092 692 |
| Sport and recreation | 347 727 | 18 140 100 | -17 792 373 | 2 056 417 | 13 626 360 | -11 569 943 |
| Public safety | 4 073 | 10 182 343 | -10 178 271 | 776 546 | 5 472 273 | -4 695 727 |
| Housing | 190 508 | 1 159 203 | -968 694 | 426 768 | 328 133 | 98 635 |
| Planning and development | 2 301 452 | 11 123 701 | -8 822 249 | 1 810 597 | 10 493 350 | -8 682 752 |
| Road transport | 52 524 487 | 116 907 566 | -64 383 079 | 49 057 774 | 76 701 079 | -27 643 305 |
| Waste management | 14 400 547 | 24 558 133 | -10 157 586 | 20 257 903 | 23 356 941 | -3 099 037 |
| Energy sources | 75 486 751 | 70 839 257 | 4 647 494 | 80 279 368 | 70 044 614 | 10 234 754 |
| Other | - | 6 570 | -6 570 | - | 5 353 | -5 353 |
| Waste water management | - | 367 580 | -367 580 | - | 9 204 533 | -9 204 533 |
| Total | 407 437 355 | 390 464 978 | 16 972 378 | 362 861 638 | 360 892 431 | 1 969 208 |

UMLALAZI MUNICIPALITY
Appendix D (1)

Actual Compared With Budgeted Revenue and Expenditure

| | Budget R | Actual R | Variance R | Variance % | Explanations of significant variances greater than 10% |
|---|--------------------|--------------------|--------------------|---------------|---|
| Revenue | | | | | |
| Revenue from exchange transactions | | | | | |
| Service charges | 71 818 530 | 78 834 109 | -7 015 579 | -10% | |
| Rental facilities and equipment | 1 308 680 | 1 623 406 | -314 726 | -24% | |
| Interest earned - external investments | 7 398 850 | 4 228 990 | 3 169 860 | 43% | |
| Agency service | 3 736 650 | 3 105 284 | 631 366 | 17% | |
| Licences and permits | 61 170 | 7 075 | 54 095 | 88% | |
| Other Income | 2 026 720 | 1 461 435 | 565 285 | 28% | |
| Gain on disposal of assets and liabilities | 140 000 | 22 877 | 117 123 | 84% | |
| Fair value adjustments | 840 000 | 1 622 000 | -782 000 | -93% | |
| Total revenue from exchange transactions | 87 330 600 | 90 905 175 | -3 574 575 | | |
| Revenue from non- exchange transactions | | | | | |
| Taxation revenue | | | | | |
| Property rates | 50 478 720 | 48 142 896 | 2 335 824 | 5% | |
| Licences and permits (non-exchange) | 11 990 | 26 546 | -14 556 | -121% | |
| Fines and penalties | 41 516 460 | 52 829 148 | -11 312 688 | -27% | |
| Transfer revenue | | | | | |
| Government grants & subsidies | 216 308 170 | 215 235 048 | 1 073 122 | 0% | |
| Public contributions, donated and contributed PPE | - | 298 542 | -298 542 | 0 | |
| Total revenue from non-exchange transactions | 308 315 340 | 316 532 180 | -8 216 840 | | |
| Total revenue | 395 645 940 | 407 437 355 | -11 791 415 | | |
| Expenditure | | | | | |
| Executive and council | 74 879 370 | 73 343 856 | 1 535 514 | 2% | |
| Finance and administration | 51 556 350 | 43 791 328 | 7 765 022 | 15% | |
| Internal audit | 2 391 860 | 2 310 252 | 81 608 | 3% | |
| Community and social services | 15 689 110 | 17 735 089 | -2 045 979 | -13% | |
| Sport and recreation | 18 800 140 | 18 140 100 | 660 040 | 4% | |
| Public safety | 10 215 750 | 10 182 343 | 33 407 | 0% | |
| Housing | 1 181 050 | 1 159 203 | 21 847 | 2% | |
| Planning and development | 12 913 420 | 11 123 701 | 1 789 719 | 14% | |
| Road transport | 104 128 100 | 116 907 566 | -12 779 466 | -12% | |
| Waste management | 24 901 790 | 24 558 133 | 343 657 | 1% | |
| Energy sources | 72 252 930 | 70 839 257 | 1 413 673 | 2% | |
| Other | 14 780 | 6 570 | 8 210 | 56% | |
| Waste water management | 377 610 | 367 580 | 10 030 | 3% | |
| Total expenditure | 389 302 260 | 390 464 978 | -1 162 718 | | |
| Surplus for the year | 6 343 680 | 16 972 378 | -10 628 698 | | |

UMLALAZI MUNICIPALITY

Appendix D (2)

Actual versus budget - acquisition of property plant and equipment

| | 2018 Actual R | 2018 Under Construction R | 2018 Additions R | 2018 Budget R | 2018 Variance R | 2018 Variance % | Explanations of significant variances greater than 10% versus budget |
|-------------------------------|-------------------|---------------------------------|---------------------|-------------------|--------------------|-----------------------|---|
| Executive and council | 538 660 | | 538 660 | 495 728 | -42 932 | -9% | |
| Finance and administration | 3 048 561 | | 3 048 561 | 3 890 300 | 841 739 | 22% | |
| Internal audit | - | | - | - | - | 0% | |
| Community and social services | 1 691 977 | | 1 691 977 | 2 079 160 | 387 183 | 19% | |
| Sport and recreation | 4 190 784 | | 4 190 784 | 4 877 960 | 687 176 | 14% | |
| Public safety | 96 780 | | 96 780 | 155 200 | 58 420 | 38% | |
| Housing | - | | - | - | - | 0% | |
| Planning and development | 225 000 | | 225 000 | 1 050 000 | 825 000 | 79% | |
| Road transport | 34 860 014 | | 34 860 014 | 40 924 772 | 6 064 758 | 15% | |
| Waste management | 218 847 | | 218 847 | 842 000 | 623 153 | 74% | |
| Energy sources | 980 182 | | 980 182 | 1 670 000 | 689 818 | 41% | |
| Other - air field | - | | - | - | - | 0% | |
| Waste water management | 278 282 | | 278 282 | 380 000 | 101 718 | 27% | |
| | 46 129 088 | - | 46 129 088 | 56 365 120 | 10 236 032 | | |

UMLALAZI MUNICIPALITY
Appendix E

Disclosure of Grants and Subsidies In Terms Of Section 123 of MFMA (Act No. 56 of 2003)

Grants and Subsidies Received

| Name of organ of state and description of grants | Number of grant | Quarterly receipts | | | | | Quarterly expenditure | | | | |
|--|-----------------------|---------------------------------|-------------------------------|-------------------------------|----------------------------------|------------|---------------------------------|-------------------------------|-------------------------------|----------------------------------|------------|
| | | July to Sept 2017 1 | Oct to Dec 2017 2 | Jan to Mar 2018 3 | April to June 2018 4 | TOTAL | July to Sept 2017 1 | Oct to Dec 2017 2 | Jan to Mar 2018 3 | April to June 2018 4 | TOTAL |
| DEPARTMENT OF CO-OPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS | | | | | | | | | | | |
| Disaster management grant | 97 | | | - | | - | | | | | - |
| Support to community service centres grant | 98 | | | | | - | | - | 11 044 | 102 908 | 113 952 |
| GIS Software | | | 495 987 | | | 495 987 | | - | - | - | - |
| Small town rehabilitation grant | | | | | | - | | - | - | - | - |
| | | - | 495 987 | - | - | 495 987 | - | - | 11 044 | 102 908 | 113 952 |
| NATIONAL TREASURY | | | | | | | | | | | |
| Municipal Systems Improvement Grant | 15 | - | - | - | - | - | - | - | - | - | - |
| Municipal Infrastructure Grant | 35 | 8 000 000 | 15 000 000 | 18 045 000 | | 41 045 000 | 9 826 236 | 11 582 122 | 3 503 170 | 16 133 472 | 41 045 000 |
| Financial Management Grant | 44 | 1 700 000 | | | | 1 700 000 | 274 216 | 297 237 | 561 528 | 567 019 | 1 700 000 |
| Expanded Public Works Programme Integrated Grant | 55 | 747 000 | 1 343 000 | 895 000 | - | 2 985 000 | 553 414 | 854 371 | 783 394 | 793 820 | 2 985 000 |
| | | 10 447 000 | 16 343 000 | 895 000 | | 45 730 000 | 10 653 866 | 12 733 731 | 4 848 093 | 17 494 311 | 45 730 000 |
| DEPARTMENT OF ARTS AND CULTURAL | | | | | | | | | | | |
| Community library services grant | 50 | | | | | - | - | - | - | - | - |
| | | - | - | - | - | - | - | - | - | - | - |
| LGSETA | | | | | | | | | | | |
| Informal traders training | 57 | | | - | | - | | | - | - | - |
| | | - | - | - | - | - | - | - | - | - | - |
| KING CETSHWAYO DISTRICT MUNICIPALITY | | | | | | | | | | | |
| Informal traders training grant | 56 | | | - | | - | | | - | - | - |
| Dune Rehabilitation | | | | 80 000 | | 80 000 | | | - | 71 100 | 71 100 |
| Coastal management programme grant | 58 | - | | - | | - | | | 149 988 | 12 798 | 162 786 |
| | | - | - | 80 000 | - | 80 000 | - | - | 149 988 | 83 898 | 233 886 |
| DEPARTMENT OF SPORT AND RECREATION | | | | | | | | | | | |
| Maintenance of sport facilities grant | 95 | - | | | - | - | 80 302 | 80 302 | 80 302 | 80 302 | 321 210 |
| | | - | - | - | - | - | 80 302 | 80 302 | 80 302 | 80 302 | 321 210 |
| DEPARTMENT OF MINERALS AND ENERGY | | | | | | | | | | | |
| Integrated national electrification programme grant | | 2 000 000 | 6 000 000 | - | - | 8 000 000 | 86 477 | 1 410 606 | 622 607 | 5 880 310 | 8 000 000 |
| | | 2 000 000 | 6 000 000 | | | 8 000 000 | 86 477 | 1 410 606 | 622 607 | 5 880 310 | 8 000 000 |
| TOTAL OF ALL GRANTS | | 12 447 000 | 22 838 987 | 975 000 | - | 54 305 987 | 10 820 646 | 14 224 639 | 5 712 034 | 23 641 729 | 54 399 048 |